

# **Notes to Financial Statements**

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# NOTES TO FINANCIAL STATEMENTS

## December 31, 2004

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the City of Seattle are regulated by the Washington State Auditor's Office and conform to generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB). The City's significant accounting policies are described below.

#### REPORTING ENTITY

The City of Seattle (the primary government for financial reporting purposes) consists of the funds, departments, agencies, boards and commissions (referred to in this note as organizations) over which the City exercises financial accountability, and a component unit over which the City is not financially accountable but is required to be reported due to the nature and significance of its relationship with the City. Additional information on the component unit may be found in Note 11. The City does not have other relationships with organizations of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

#### Indicators of Financial Accountability

The financial statements include the organizations for which the elected officials of the City of Seattle are financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

- Appointment by the City of a majority of voting members of the governing body of an organization, and
  - Ability of the City to impose its will on the daily operations of an organization, such as the power to remove appointed members at will; to modify or approve budgets, rates, or fees; or to make other substantive decisions; or
  - Provisions by the organization of specific financial benefits to the City; or
  - Imposition by any organization of specific financial burdens on the City, such as the assumption of deficits or provision of support;
- Or, fiscal dependency by the organization on the City, such as from the lack of authority to determine its budget or issue its own bonded debt without City approval.

#### Joint Ventures

A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an ongoing financial interest or an ongoing financial responsibility. (Note 12)

The City participates in joint ventures with King County as follows:

Seattle-King County Department of Public Health

Seattle-King County Work Force Development Council

## Organizations Excluded: Related Organizations

Organizations for which the City has appointed a voting majority of the members of the governing body, but for which the City is not financially accountable, are as follows:

Housing Authority of the City of Seattle

City of Seattle Industrial Development Corporation

Burke-Gilman Place Public Development Authority

## ACCOUNTING STANDARDS

The City implemented the following Government Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) statements:

In June 2001 the FASB issued Statement No. 143, *Accounting for Asset Retirement Obligations*. This statement addresses financial accounting and reporting for legal or contractual obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. This statement requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the associated costs of the asset retirement obligation will be capitalized as part of the carrying amount of the related long-lived asset. The liability will be accreted to its present value each period and the related capitalized costs will be depreciated over the useful life of the related asset. Upon retirement of the asset, the retirement obligation is settled for its recorded amount or a gain or loss is incurred. The adoption of this statement by City Light on January 1, 2003, did not have a material effect on the Utility's financial position or operations.

In April 2002 the FASB issued Statement No. 145, *Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. Statement No. 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* have been met. Statement No. 145 provisions regarding early extinguishment of debt generally apply to the Light Department for advance refundings using cash, and this statement was adopted by the Light Fund in 2003 without material impact to financial position or operations. For advance refundings made by issuance of new bonds, the transactions are accounted for in accordance with GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt* and GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*.

In April 2003 the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends Statement No. 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to Statement No. 133, (2) in connection with other FASB projects dealing with financial instruments, and (3) in connection with implementation issues raised in relation to the application of the definition of a derivative (in particular, the meaning of an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, the meaning of underlying, and the characteristics of a derivative that contain financing components). This statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The provisions of Statement No. 149 that relate to Statement No. 133 implementation issues that were effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective dates. In addition, certain provisions relating to forward purchases or sales of "when-issued" securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. City Light has entered into certain forward contracts to purchase or sell power that may no longer meet the normal purchases and sales exception in accordance with the provisions of Statement No. 149. This statement requires that substantially all new forward contracts to purchase or sell power, which were entered into on or after July 1, 2003, be recorded as assets or liabilities at market value with an offsetting regulatory asset or liability as allowed under Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*. The adoption of this statement did not have a material effect on City Light's financial position or operations.

In July 2003 the Emerging Issues Task Force (EITF) reached consensus on Issue No. 03-11, *Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not Held for Trading Purposes as Defined in EITF Issue No. 02-3*. This EITF issue requires that revenues and expenses from City Light's settled energy contracts that are "booked out" (not physically delivered) should be reported on a net basis as part of operating revenues. The adoption of this statement did not have a material effect on City Light's financial position or operations.

In June 2003 the GASB issued Technical Bulletin No. 2003-1 (TB 03-1), *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, which supersedes Technical Bulletin 94-1 and clarifies guidance on derivative disclosures, pending the results of the GASB's project on reporting and measurement of derivatives and hedging activities. TB 03-1 applies to derivatives that are not reported at fair value on the statement of net assets and adopts the definition of derivatives established by the FASB in paragraphs 6 through 9 of Statement No. 133 as amended; those paragraphs make reference to reporting requirements applicable to embedded derivatives in paragraph 12 of that statement, as amended. TB 03-1 is not intended to apply to embedded derivatives except for the following transactions which are within the scope of TB 03-1: (1) a derivative transaction that involves either cash receipts or cash payments at inception equal to the derivative's fair value; (2) a prepaid interest rate swap. TB 03-1 is effective for fiscal years ending after June 15, 2003, and was adopted by the City in 2003 without material impact to financial position or operations.

In May 2002 the GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement was issued to amend Statement 14 to provide additional guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. This statement is effective for fiscal years beginning after June 15, 2003, and was adopted by the City in 2004.

### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report the financial position and activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on charges and fees for their services. Resources of fiduciary activities, which are not available to finance governmental programs, are excluded from the government-wide statements

#### Statement of Net Assets

The statement of net assets reports all financial and capital resources. The difference between assets and liabilities is net assets. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

The amount reported as invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net assets are restricted when constraints placed on net asset use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.

For permanent endowments, net assets are displayed showing the nonexpendable and the expendable components separately. Nonexpendable net assets are those that are required to be retained in perpetuity and are reported as restricted net assets. Unrestricted net assets are those that are not "invested in capital assets, net of related debt" or "restricted."

#### Statement of Activities

The statement of activities displays the degree to which the direct expenses of a given function or segment are funded by program revenues. Direct expenses are those that are clearly identifiable to a specific function. Direct expenses include depreciation on capital assets that are clearly associated with a given function. In general, expenses related to personnel functions are reported as indirect expenses. Program revenues include charges for services, grants, and contributions that are restricted for specific purposes. Taxes and other revenues not included as program revenues are reported as general revenues.

Interfund activity within governmental funds of the City is eliminated, except for the effect of services provided by the business-type activities, such as the sale of utility services to the general government and to other funds. This avoids misstatement of program revenues of the selling function and expenses of the various users. Operating income or (loss) reported by internal service funds in the fund financial statements are allocated back to the City departments either as a reduction or addition to their expenses by function.

#### Fund Financial Statements

Separate fund financial statements are provided to report additional and detailed information for governmental funds, proprietary funds, and fiduciary funds. Even though fiduciary funds are excluded from the government-wide financial statements, these funds are reported in the fund financial statements under the statement of fiduciary net assets and the

statement of changes in fiduciary net assets. Major individual governmental funds and major individual enterprise funds are presented as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in other funds.

The **Low-Income Housing Fund** manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for a seven-year housing levy approved by the voters in 2002 to provide, produce, and/or preserve affordable housing in Seattle and to assist low-income tenants in Seattle.

The City reports the following major proprietary funds:

The **Light Fund** (City Light) accounts for operating the City's electric utility, which owns and operates generating, transmission, and distribution facilities and serves more than 370,000 customers in the Seattle area.

The **Water Fund** accounts for operating the City's water utility. The Utility maintains more than 175 miles of water supply mains and more than 460 million gallons of distribution storage capacity in the Cedar and Tolt Rivers and Highline Well Field watersheds. The distribution system serves a population of over 1,300,000 people, with an average daily total consumption of about 130 million gallons of water.

The **Drainage and Wastewater Fund** accounts for operating the sewer and drainage utility facilities and its pumping stations. These facilities and stations are necessary to collect the sewage of the City and discharge it into the King County Department of Natural Resources Wastewater Treatment System for treatment and disposal.

Additionally, the City reports the following fund types:

There are two **permanent funds** of the City, the investment income or earnings of which are available only for disbursement. They are the **H. H. Dearborn Fund** and the **Beach Maintenance Trust Fund**.

**Internal service funds** account for support services furnished to other City departments such as the motor pool; printing and duplicating services; design, construction, and management services for capital improvement projects (CIP) funds; telecommunications; data communications; radio systems; and the fiber optic network.

**Fiduciary funds** account for assets held in a trustee or agency capacity. The City has three pension trust funds:

The **Employees' Retirement Fund** receives employees' payroll deductions for retirement and the City's matching contributions. It pays pension benefits to retired City employees.

The **Firemen's Pension Fund** accounts for revenues from an annual property tax levy of up to \$0.45 per assessed value, a portion of the state-levied fire insurance premium tax, and General Fund contributions.

The **Police Relief and Pension Fund** receives support almost entirely from the General Fund to pay for sworn police personnel's medical and pension benefits that are not covered by the state's Law Enforcement Officers and Fire Fighters' Retirement System and/or industrial insurance.

The City uses **agency funds** to report assets that are held in a custodial relationship. Agency funds are not used to support the government's own programs and so these funds are excluded from the government-wide statements. The City reports the following as agency funds: Guaranty Deposits, Payroll Withholding, Salary, Voucher, and Residual Cash Investments Funds.

## MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

### Government-wide Financial Statements

Government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Basis of accounting refers to the point when revenues and expenditures or expenses and transfers are recognized in the accounts and reported in the financial statements.

### Governmental Fund Financial Statements

Financial statements for governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter (generally 60 days) to pay current liabilities. Revenues that are measurable but not available are recorded as receivables and offset by deferred revenues.

Property taxes, business and occupation taxes, and other taxpayer-assessed tax revenues due for the current year are considered measurable and available and are therefore recognized as revenues even though a portion of the taxes may be collected in the subsequent year. Special assessments are recognized as revenues only to the extent that those individual installments are considered as current assets. Intergovernmental revenues received as reimbursements for specific purposes are recognized when the expenditures are recognized. Intergovernmental revenues received but not earned are recorded as deferred revenues. Licenses, fines, penalties, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are accrued as earned.

Expenditures are recorded when the liability is incurred except for interest on long-term debt, judgments and claims, workers' compensation, and compensated absences, which are recorded when paid.

### Proprietary Fund Financial Statements

Financial statements for proprietary funds use the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. Certain costs in the enterprise funds are deferred and expensed in future years as the utility rates recover these costs.

The revenues of the four utilities, which are based upon service rates authorized by the City Council, are determined by monthly or bimonthly billings to customers. Amounts received but not earned at year-end are reported as deferred revenues. Earned but unbilled revenues are accrued.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal activity. The principal operating revenues of the City's Light, Water, Solid Waste, Drainage and Wastewater Utilities, the Parking Garage, the Planning and Development Fund, and the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of personnel services, contractual services, other supplies and expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has chosen flexible application and reporting in accordance with the election of each fund. City Light elected to apply all GASB pronouncements as well as all FASB statements and interpretations except where they conflict with GASB pronouncements. All other enterprise funds elected to apply all GASB pronouncements and those FASB statements and interpretations issued on or before November 30, 1989, except when they contradict GASB pronouncements.

### Fiduciary Fund Financial Statements

Financial statements for the pension trust and private-purpose trust funds use the economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transactions or events occur. Member benefits, including refunds, are due and payable by the plan in accordance with plan terms.

Agency funds, unlike the other types of fiduciary funds, report only assets and liabilities. Agency funds do not have a measurement focus since they do not report equity and cannot present an operating statement reporting changes in equity. They do, however, use the accrual basis of accounting to recognize receivables and payables.

### BUDGETS AND BUDGETARY ACCOUNTING

Budgetary accounts are integrated in the fund database for all budgeted funds, including CIP and Community Development Block Grant (CDBG) projects. However, the annual financial report includes budgetary comparisons for annually budgeted governmental operating funds only. Note 2, Stewardship, Compliance, and Accountability, discusses in detail the City's budgetary policies and processes.

## ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

### Cash and Investments

The City is authorized to purchase U.S. Treasury and government agency securities; certificates of deposits and other investment deposits issued by Washington State depositories that qualify under the Washington State Deposit Protection Act as defined by RCW 39.58; bankers' acceptances purchased in the secondary market; commercial paper purchased in the secondary market and having received the highest rating by at least two nationally recognized rating agencies; repurchase and reverse repurchase agreements with "primary dealers" that have executed master repurchase agreements, and the public funds investment account known as the local government investment pool (LGIP) in the State Treasury and other securities as authorized by law.

The City and the City Employees' Retirement System are also allowed under state law to make securities lending transactions. Gross income from securities lending transactions are recorded in the operating statements as well as the various fees paid to the institution that oversees the lending activity. Assets and liabilities include the value of the collateral that is being held. Under the authority of RCW 41.28.005 and the Seattle Municipal Code 4.36.130 the System's Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Securities lent must be collateralized with cash or securities having 102 percent of the market value of the loaned securities. The City and the Retirement System have the ability to pledge or sell collateral securities without a borrower default.

Under the City's investment policy, all temporary cash surpluses are invested, either directly or through a "sweep account." Pooled investments are reported on the Combined Balance Sheet as Cash and Equity in Pooled Investments. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the preceding month.

Since the participating funds in the City's internal investment pool use the pool as if it were a demand deposit account, the proprietary fund equity in pooled investments is considered cash for cash flow reporting purposes.

Investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The City of Seattle has the following policies in managing its investments:

- The City seeks to preserve principal while maximizing income and maintaining liquidity to meet the City's need for cash.
- Investment decisions should further the City's social policies established by ordinance or policy resolutions of the City Council.
- A City social policy shall take precedence over furthering the City's financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- Securities purchased shall have a maximum maturity of fifteen years, and the average maturity of all securities shall be less than five years.
- All transactions are done on a delivery-versus-payment basis.
- The standard of prudence to be used by investment personnel shall be the "Prudent Person Rule" and will be applied in the context of managing an overall portfolio.
- Securities shall not be purchased with trading or speculation as the dominant criterion for the selection of the security.

The Seattle City Employees' Retirement System has its investment management policies set by the Retirement Board. The major difference is that state law allows the System to invest in longer term maturities and in a broader variety of securities, such as real estate and equity issues. The Board policies require that investments in any one corporation or organization may not exceed five percent of net assets available for benefits. Less than five percent of plan assets can be invested in derivative securities. All derivatives are high quality non-leveraged securities consisting of CMOs, Treasury strips, convertible bonds, futures, options, etc. These derivatives cause little exposure to credit risk, market risk, or legal risk. Venture capital and real estate equities are reported at fair value that has been determined by independent appraisers.

### Receivables

Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Notes and contracts receivable arise from a written agreement or contract with private individuals or organizations. Receivables are shown net of allowances for uncollectible accounts.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/due from other funds.

Advances to other funds in governmental funds are equally offset by a fund balance reserve account, which indicates that they do not constitute available spendable resources since they are not a component of net current assets.

### Inventories

Inventories are generally valued using the weighted-average cost method and consist of expendable materials and supplies held for consumption.

The cost is recorded as expenditure in governmental funds at the time individual inventory items are purchased. This is known as the purchase method. Governmental fund inventories are equally offset by a fund balance reserve, which indicates that they do not constitute available spendable resources even though they are included in net current assets.

Inventories in the proprietary funds are expensed as consumed.

### Capital Assets

The City classifies assets with an estimated useful life in excess of one year as capital assets. As a general rule, items with an initial individual cost of \$5,000 or more are capitalized.

Governmental infrastructure assets include long-lived capital assets, such as roads, bridges, and tunnels, that normally can be preserved for a significantly greater number of years than most capital assets. Estimated historical costs were established based on the City's street reports to the state. Works of art have been valued at historical cost. In cases where the historical cost is not available the method used was "backtrending," i.e., deflating the current replacement cost using the appropriate price index. Donated capital assets are valued at their estimated fair market value at the time of donation. For proprietary funds, contributions of capital assets are reported under capital grants and contributions in the statement of revenues, expenses, and changes in fund net assets.

Most capital assets are depreciated for the governmental funds. Annual depreciation is recorded in government-wide statements as an expense of the governmental function for which the assets are being used. Depreciation is computed using the straight-line method over estimated service lives as follows:

Buildings	25 - 50 years
Improvements other than buildings	25 - 50 years
Utility plant	33 - 100 years
Equipment	2 - 25 years

Composite rates are used in the enterprise funds for depreciating asset groups. Consequently, when an asset is retired, its original cost together with removal costs less salvage is charged to accumulated depreciation. The cost of current maintenance and repairs is charged to expense, while the cost of renewals and betterments is capitalized.

### Restricted Assets

In accordance with the utility bond resolutions, state law, or other agreements, separate restricted assets have been established. These assets are restricted for specific purposes including the establishment of bond reserve funds, financing the ongoing capital improvement programs of the various utilities, and other purposes.

Capital leases are recorded at the present value of future lease payments and amortized on a straight-line basis over the life of the lease.



## Deferred Charges

Deferred charges may include the preliminary costs of projects and information systems, programmatic conservation costs, landfill closure costs, certain purchased power expenses, the cost of future construction of plant owned and operated by other entities for future services, and charges related to bond issues.

Preliminary costs incurred by the enterprise funds for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; costs are charged to expense if a project is abandoned or deferred if the costs are to be recovered through future use. Conservation program costs in the Light and Water utilities which result in long-term benefits and reduce or postpone other capital expenditures are capitalized and amortized over their expected useful lives due to the utilities' capital financing plans and rate-setting methodology. Costs of administering the overall program are expensed as incurred.

In the proprietary funds the bond premium and discount are amortized using the effective-interest method over the term of the bonds. The excess costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized as a component of interest expense using either straight-line or effective-interest methods over the shorter of the remaining life of the old debt or the life of the new bond issue. Bond issue costs are amortized over the life of the bond. For all other funds, deferrals and amortizations are recognized and reported directly in the government-wide statements under governmental activities.

To the extent landfill closure costs are covered by grants, the Solid Waste Utility reports these costs as operating expense. Solid Waste's portion of the costs is deferred and amortized as it is recovered from the ratepayers.

## Accumulated Compensated Absences

Compensated absences, including payroll taxes, are reported as current and noncurrent liabilities in the statement of net assets. Actual balances are accrued for all types of compensated absences except sick leave, the liability for which is generally estimated using the termination method.

### *Vacation Pay*

Employees earn vacation based upon their date of hire and years of service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or termination is considered vested and payable to the employee.

### *Sick Pay*

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25 percent of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement.

### *Other Compensated Absences*

Other compensated absences include compensatory time in lieu of overtime pay, merit credits earned by fire fighters, furlough earned by police, holiday earned by library and police employees, and other compensation earned by City employees under law or union contracts. Unused compensated absences are payable at retirement or termination.

## Risk Management

A liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are discounted at the City's average investment rate of return (Note 14).

## Other Accrued Liabilities

Other accrued liabilities include deposits, interest payable on obligations other than bonds, and current portions of lease-purchase agreements.

## Interfund Activity and Contracts/Advances

Interfund activity and balances in the funds are eliminated or reclassified in the process of aggregating data for the statement of net assets and the statement of activities.

Interfund debt is recorded in the appropriate funds even though that debt may result in a noncurrent liability for a governmental fund because the debt is not a general obligation of the City.

### Deferred Revenues

Deferred revenues include amounts collected before revenue recognition criteria are met and receivables because, under the modified accrual basis of accounting, they are measurable but not yet available. The deferred items consist primarily of delinquent property taxes, contracts, mortgages receivable, grant funds received in advance of expenditures in governmental funds, and the amounts loaned by the Housing and Community Development Revenue Sharing Fund, a special revenue fund, under authorized federal loan programs.

Deferred credits include deferred revenues and revenues collected or billed in advance.

### Reservations and Designations

A reservation is used to segregate a portion of fund balance that is either not appropriable for expenditures or is legally restricted for a specific future use. The amounts not appropriable for expenditures are reported as fund balance reserved for noncurrent assets, inventories, petty cash, and prepaid items. The amounts legally segregated for specific future uses are reported as fund balance reserved for capital improvements and grants, debt service including judgments and claims, employee benefits, endowments and gifts, employee retirement systems, continuing appropriations, and encumbrances.

In cases where a governmental fund does not have enough available unreserved fund balance, the fund balance reserved for that fund is limited to the extent of the amount available.

### Program Revenues

Program revenues are revenues derived directly from the program itself. These revenues reduce the net cost of the function to be financed from the City's general revenues. The statement of activities separately reports three categories of program revenues: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. Taxes and other revenues that do not meet the criteria of program revenues are reported as general revenues.

## (2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### BUDGETARY INFORMATION

The City budgets for the General Fund and some special revenue funds on an annual basis. The special revenue funds which have legally adopted annual budgets are the Park and Recreation Fund, the Transportation Fund, the Library Fund, the Seattle Center Fund, the Human Services Operating Fund, the Office of Housing Fund, and the Low-Income Housing Fund.

The City Council approves the City's operating budget. In addition, the City Council annually approves two separate but related financial planning documents: the Capital Improvement Program (CIP) plan and the Community Development Block Grant (CDBG) program allocation.

The operating budget is proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The budget is designed to allocate available resources on a biennial basis among the City's public services and programs and provides for associated financing decisions. This budget appropriates fiscal year expenditures and establishes employee positions by department and fund except for project-oriented, multiyear appropriations made for capital projects, grants, or endowments.

**Table 2-1**

## **APPROPRIATION CHANGES – GENERAL FUND** *(In Thousands)*

	<u>2004</u>
Annual Budget	\$ 844,355
Carryovers	
Encumbrances	12,101
Continuing Appropriations	32,310
Carryover Adjustments	8
Intrafund	(99,204)
Revisions	<u>30,968</u>
Total Budget	<u>\$ 820,538</u>

The CIP plan is also proposed by the Mayor and adopted by the City Council at least 30 days before the beginning of the fiscal year. The CIP is a six-year plan for capital project expenditures and anticipated financing by fund source. It is revised and extended annually. The City Council adopts the CIP as a planning document but does not appropriate the multiyear expenditures identified in the CIP. These expenditures are legally authorized through the annual operating budget or by specific project ordinances during the year.

The CDBG planning process allocates the annual grant awarded by the federal government. Allocations are made to both City and non-City organizations. Legal authority is established each year by a separate appropriation ordinance for the Housing and Community Development Revenue Sharing Fund.

Budgetary control for the operating budget generally is maintained at the budget control level within departments with the following exceptions. The Library Fund has its total budget set at fund level by the City Council, but its actual expenditures are controlled by the Library Board. Capital projects programmed in the CIP are controlled at the project or project-phase level or program depending on legal requirements. Grant-funded activities are controlled as prescribed by law and federal regulations.

The City Council may by ordinance abrogate, decrease, or reappropriate any unexpended budget authority during the year. The City Council, with a three-fourths vote, may also increase appropriations. Emergency Subfund appropriations related to settlement of claims, emergency conditions, or laws enacted since the annual operating budget ordinance require approval by two-thirds of the City Council.

The Finance Director may approve the transfer of appropriations. Beginning in 2003 the following restrictions to budget transfers were imposed by ordinance. Total budget year transfers into a budget control level may not exceed 10 percent of its original budgeted allowance, and in no case may they be greater than \$500,000. Total transfers out may not exceed 25 percent of the original budgeted allowance. Within a budget control level departments may transfer appropriations without Department of Finance approval.

Budgetary comparisons for proprietary funds may be requested from the Department of Executive Administration. Budget figures consist of the adopted annual budget, which includes appropriation carryovers from previous years and any revisions during the year. The budgetary basis is substantially the same as the accounting basis in all governmental fund types except for the treatment of encumbrances, which do not lapse and are included with expenditures.

## **DEFICITS IN FUND BALANCES AND NET ASSETS**

The Seattle Center Fund shows a negative fund balance of \$9.7 million. A continued downturn in the economy depressed disposable income levels and hence the number of Seattle Center visitors. Due to the competitiveness of the sports and entertainment businesses there are more arenas in the Puget Sound region that are competing in this market. Significant expense cuts partially offset the impact of the revenue shortfall but could not prevent a negative fund balance. The negative fund balance is expected to continue in 2005. Seattle Center has been moving aggressively to sell some properties to offset the negative fund balance. The City Council has approved an interfund loan to cover the negative cash balance (Ordinance 121262).

The Engineering Services Fund has \$5.2 million of deficit net assets. This deficit is largely the consequence of inadequate overhead rates during the mid-1990s, which led to significant under-recovery of expenditures and disputed costs on projects performed for other agencies and departments. Disputed billing and overhead issues have been addressed and are now closely monitored. Deficit-recovery surcharges are being applied to Engineering Services Fund services, and the financial position of the Engineering Services Fund is expected to improve in future years.

The 2005 Multipurpose Long-Term General Obligation Bond Fund has a negative fund balance of \$3.1 million. This deficit was foreseen at the creation of the fund in Ordinance 121329, which allows a loan from the City's Consolidated (Residual) Cash Pool of up to \$7 million dollars. It was in the City's best interest to fund and begin implementation of the Mercer Corridor and Pay Stations projects at that time, and there was sufficient cash in the City's Consolidated (Residual) Cash Pool or its participating funds to support a loan of up to \$7 million plus accrued interest to the 2005 Multipurpose LTGO Bond Fund. It was anticipated that bonds would be issued in 2005 to repay any loans as well as cover future expenditures. This bond issuance was authorized by Ordinance 121663.

The Downtown Parking Garage has negative fund equity of \$16.3 million. This is mostly attributable to the cumulative effects of annual depreciation expense which is not planned to be covered by operating revenues. The Garage has been generating sufficient revenues to cover operating expenses and debt service payments, but not depreciation and accrued interest. The negative fund balance situation will continue; however, the Garage is expected to cover future operating costs and debt service as they become due.

## (3) CASH AND INVESTMENTS

The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to \$100,000. All deposits not covered by FDIC insurance are covered by the Public Deposit Protection Commission (PDPC) of the state of Washington. The PDPC is a statutory authority established under RCW 39.58. It constitutes a multiple financial institution collateral pool. In the case of a loss by any public depository in the state, each public depository is liable for an amount up to 11 percent of its public deposits. Provisions of RCW 39.58.060 authorize the PDPC to make pro rata assessments in proportion to the maximum liability of each such depository as it existed on the date of loss. Therefore, PDPC protection is that of collateral, not of insurance.

Note 1 describes the investment policies of the City. Banks or trust companies acting as the City's agents hold most of the City's investments in the City's name. These investments are classified risk category 1. In some cases the trust department of the City's depository bank holds City investments in the City's name. These investments are classified risk category 2. Certain investments are uninsured and held by the trust department of the City's agent in the agent's name. These are classified risk category 3. The City currently has no investments in categories 2 and 3.

**Table 3-1** **INVESTMENTS BY RISK CATEGORY AND TYPE**  
*(In Thousands)*

	Fair Value			
	Treasury Residual Investments	Securities Held for Dedicated Funds	Employees' Retirement System Investments	Carrying Amount
<b>CATEGORY 1 INVESTMENTS</b>				
Repurchase Agreements	\$ 30,600	\$ -	\$ -	\$ 30,600
Commercial Paper	124,853	67,236	-	192,089
U.S. Government Obligations	49,351	-	223,188	272,539
Agencies	415,548	95,003	-	510,551
Corporate Bonds	-	-	104,046	104,046
Common Stocks	-	-	826,132	826,132
International Stocks	-	-	182,685	182,685
Total Category 1 Investments	620,352	162,239	1,336,051	2,118,642
<b>INVESTMENTS NOT SUBJECT TO CREDIT RISK</b>				
Realty Equities	-	-	145,772	145,772
Venture Capital	-	-	155,978	155,978
Short-Term Investment Funds	-	-	265,465	265,465
Total Investments Not Subject to Credit Risk	-	-	567,215	567,215
Total Investments	<u>\$ 620,352</u>	<u>\$ 162,239</u>	<u>\$ 1,903,266</u>	<u>\$ 2,685,857</u>

## SECURITIES LENDING TRANSACTIONS

Gross income from securities lending transactions of the Seattle City Employee's Retirement System (SCERS) are reported in the fund's operating statements as well as the various fees paid to the institution that oversees the lending activity. Assets and liabilities include the value of the collateral that is being held.

Under the authority of Washington State RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the SCERS Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Through a custodial agent, SCERS participates in a securities lending program whereby securities are loaned for the purpose of generating additional income to SCERS. SCERS lends securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral. There are no restrictions on the amount of securities that may be loaned. The contractual agreement with the SCERS' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay SCERS income distribution by the securities' issuers while the securities are on loan. Cash and U.S. government securities were received as collateral for these loans. SCERS cannot pledge or sell collateral securities without a borrower default. SCERS invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as SCERS must return the cash collateral to the borrower upon the expiration of the loan. There have been no losses resulting from a default, and SCERS did not have negative credit exposure at December 31, 2004.

**Table 3-2** **SECURITIES LENT AND COLLATERAL**  
(In Thousands)

TYPE OF SECURITIES LENT	2004		2003	
	Fair Value of Securities Lent	Collateral	Fair Value of Securities Lent	Collateral
U.S. Government and Agencies	\$ 118,576	\$ 120,740	\$ 61,685	\$ 63,080
U.S. Corporate Fixed Income	17,192	17,553	16,555	16,928
U.S. Equities	97,843	100,795	66,363	68,219
Total Securities Lent	<u>\$ 233,611</u>	<u>\$ 239,088</u>	<u>\$ 144,603</u>	<u>\$ 148,227</u>
<b>COLLATERAL REPORT</b>		<b>2004</b>	<b>2003</b>	
U.S. Corporate Obligations		\$ 103,107		\$ 77,514
Bank Obligations		55,001		22,985
Repurchase Agreement		76,987		47,728
Commercial Paper		3,992		-
Total Collateral		<u>\$ 239,087</u>		<u>\$ 148,227</u>

## REVERSE REPURCHASE AGREEMENTS

The City regularly enters into reverse repurchase agreements as part of its investment policies. These agreements are sales of securities with simultaneous agreements to repurchase them at a future date at the same prices plus contracted rates of interest. The fair value of the securities underlying the agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities or cash of equal value, the City would suffer an economic loss equal to the difference between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The City has no reverse repurchase agreements at year-end.

**Table 3-3**

**CASH AND INVESTMENTS**  
*(In Thousands)*

Cash and Equity in Pooled Investments	
Current Assets (Nonrestricted)	\$ 476,035
Restricted	
Restricted Cash and Equity in Pooled Investments	137,064
Restricted Investments	<u>162,064</u>
Total Cash and Equity in Pooled Investments	\$ 775,163
Investments	
Current Assets (Nonrestricted)	1,903,716
Cash with Fiscal Agent	<u>55</u>
Total - December 31, 2004	<u>\$ 2,678,934</u>
<b>COMPOSITION</b>	
Cash and Investments	\$ 2,674,984
Cash with Fiscal Agent	55
Trustee Accounts	
Municipal Courts	396
Retainage on Public Works Contracts in Escrow	<u>3,499</u>
Total Cash and Investments	<u>\$ 2,678,934</u>

The City recorded the net increase (decrease) in the fair value of investments at December 31, 2004 and 2003, as a component of interest income, summarized as follows.

**Table 3-4**

**INCREASE (DECREASE) IN FAIR VALUE OF INVESTMENTS**  
*(In Thousands)*

	<u>2004</u>	<u>2003</u>
Realized Interest Income	\$ 27,445	\$ 38,719
Net Increase (Decrease) in the Fair Value of Investments	<u>(5,399)</u>	<u>(155)</u>
Totals	<u>\$ 22,046</u>	<u>\$ 38,564</u>

## **(4) RECEIVABLES AND INTERFUND TRANSACTIONS**

**Table 4-1**

**TAX REVENUES AND RECEIVABLES**  
*(In Thousands)*

	<u>2004 Revenues</u>	<u>December 31 2004 Receivables</u>
Property Taxes	\$ 296,343	\$ 5,767
General Business and Occupation Taxes	<u>178,996</u>	<u>38,385</u>
Totals	<u>\$ 475,339</u>	<u>\$ 44,152</u>

## **TAXING POWERS AND LIMITATIONS**

State law limits the regular property tax rate for general City operations to \$3.60 per \$1,000 of assessed value. This includes \$3.375 for general municipal purposes and an additional \$0.225 for the Firemen's Pension Fund and for general municipal purposes under conditions spelled out in state law. From 1997 through 2001 state law limited the annual growth

in the City's regular property tax levy to the lesser of 1.06 percent or the annual rate of inflation. The passage of Initiative 747 in November 2001 reduced the 1.06 percent to 1.01 percent. The growth limit does not count tax revenues from new construction or property remodeled within the last year. With simple-majority voter approval, the City can levy additional property taxes above the 1.01 percent annual growth limit, as long as the City's regular levy rate per \$1,000 of assessed value does not exceed the \$3.60 limit. Excess tax levies for capital purposes require a 60-percent approval by voters and do not fall under either of the limits. The City levied \$2.16 per \$1,000 for general operations and Firemen's Pension Fund in 2004. In addition, the levy included \$1.20 per \$1,000 of assessed value for debt service and other voter-approved levies. The total 2004 levy was \$3.36 per \$1,000 of assessed value.

## INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between funds. The interfund balances are presented in the balance sheets for governmental funds and statements of net assets for proprietary funds.

The following table shows the current interfund balances at December 31, 2004, as reported in the fund financial statements.

**Table 4-2** **DUE FROM AND TO OTHER FUNDS**  
(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
General	Drainage and Wastewater	\$ 1,601
	Nonmajor Enterprise	606
	Fiduciary	455
	Nonmajor Governmental	3,188
	Internal Service	744
	Light	3,383
	Water	729
	Total General Fund	10,706
Low-Income Housing	Fiduciary	100
Light	Drainage and Wastewater	105
	Nonmajor Enterprise	90
	Fiduciary	294
	General	19,522
	Nonmajor Governmental	177
	Internal Service	273
	Water	267
	Total Light Fund	20,728
Water	Drainage and Wastewater	184
	Nonmajor Enterprise	24
	Fiduciary	82
	General	66
	Nonmajor Governmental	847
	Internal Service	8
	Light	176
	Total Water Fund	1,387
Drainage and Wastewater	Nonmajor Enterprise	35
	Fiduciary	36
	General	60
	Nonmajor Governmental	569
	Internal Service	6
	Light	60
	Water	13
	Total Drainage and Wastewater Fund	779

**Table 4-2** **DUE FROM AND TO OTHER FUNDS (continued)**  
*(In Thousands)*

<u>Receivable Fund</u>	<u>Payable Fund(s)</u>	<u>Amount</u>
Nonmajor Governmental	Drainage and Wastewater	\$ 506
	Nonmajor Enterprise	215
	Fiduciary	336
	General	4,620
	Nonmajor Governmental	6,898
	Internal Service	390
	Low-Income Housing	129
	Light	668
	Water	292
	Total Nonmajor Governmental Funds	14,054
Nonmajor Enterprise	Drainage and Wastewater	56
	Nonmajor Enterprise	26
	Fiduciary	58
	General	259
	Nonmajor Governmental	284
	Internal Service	1
	Light	201
	Water	89
	Total Nonmajor Enterprise Funds	974
Internal Service	Drainage and Wastewater	60
	Nonmajor Enterprise	136
	Fiduciary	96
	General	1,974
	Nonmajor Governmental	1,602
	Internal Service	80
	Low-Income Housing	89
	Light	785
	Water	679
	Total Internal Service Funds	5,501
Fiduciary	Fiduciary	586
	General	3
	Nonmajor Governmental	35
	Light	1
	Total Fiduciary Funds	625
Grand Total		<u>\$ 54,854</u>

The balances in Table 4-2 resulted from the time lag between the dates that (1) interfund goods and services were provided or reimbursable expenditures occurred, (2) transactions were recorded in the accounting system, and (3) payments between funds were made.

**Table 4-3** **ADVANCES, NOTES, AND LOANS FROM AND TO OTHER FUNDS**  
*(In Thousands)*

<u>Advances, Notes, and Loans From</u>	<u>Advances, Notes, and Loans To</u>	<u>Amount</u>
General	Park and Recreation	\$ 1,800
	Seattle Center	9,351
	2005 Multipurpose Long-Term General Obligation Bond	3,200
	Engineering Services	4,600
	City Light	5,159
Total City		<u>\$ 24,110</u>



**Table 4-4**

## INTERFUND TRANSFERS (In Thousands)

Transfers In	Transfers Out					Total
	General	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Fiduciary	
General Fund	\$ -	\$ 1,933	\$ -	\$ 4,305	\$ -	\$ 6,238
Nonmajor Governmental	198,242	24,725	25	2,288	2	225,282
Nonmajor Enterprise	9,762	-	-	-	-	9,762
Internal Service	8,003	-	-	-	-	8,003
Total Transfers	\$ 216,007	\$ 26,658	\$ 25	\$ 6,593	\$ 2	\$ 249,285

Transfers are used to (1) move revenues from the fund wherein the statute or budget requires them to be collected to the fund wherein the statute or budget requires them to be expended and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## (5) CAPITAL ASSETS

Table 5-1

### CHANGES IN CAPITAL ASSETS (In Thousands)

	Restated Balance January 1	Additions	Deletions	Balance December 31
<b>GOVERNMENTAL ACTIVITIES <sup>a</sup></b>				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 345,578	\$ 18,616	\$ 100	\$ 364,094
Construction in Progress	362,436	180,598	330,510	212,524
Total Capital Assets Not Being Depreciated	708,014	199,214	330,610	576,618
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and Improvements	1,278,529	285,532	598	1,563,463
Machinery and Equipment	183,007	22,951	14,755	191,203
Infrastructure	813,149	24,280	-	837,429
Other Capital Assets	6,964	1,134	-	8,098
Total Capital Assets Being Depreciated	2,281,649	333,897	15,353	2,600,193
Accumulated Depreciation				
Buildings and Improvements	274,683	32,223	7	306,899
Machinery and Equipment	100,908	17,003	12,061	105,850
Infrastructure	352,667	25,296	-	377,963
Other Capital Assets	595	(102)	-	493
Total Accumulated Depreciation	728,853	74,420	12,068	791,205
Total Capital Assets Being Depreciated, Net	1,552,796	259,477	3,285	1,808,988
Governmental Activities Capital Assets, Net	<u>\$ 2,260,810</u>	<u>\$ 458,691</u>	<u>\$ 333,895</u>	<u>\$ 2,385,606</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	\$ 62,597	\$ 2,293	\$ 4	\$ 64,886
Construction in Progress	350,041	202,100	330,374	221,767
Total Capital Assets Not Being Depreciated	412,638	204,393	330,378	286,653
CAPITAL ASSETS BEING DEPRECIATED				
Plant in Service, Excluding Land	3,753,201	331,386	34,442	4,050,145
Buildings	73,013	-	-	73,013
Machinery and Equipment	10,532	50	-	10,582
Other Capital Assets	14,510	1,284	677	15,117
Total Capital Assets Being Depreciated	3,851,256	332,720	35,119	4,148,857
Accumulated Depreciation				
Plant in Service, Excluding Land	1,367,921	123,893	19,470	1,472,344
Buildings	12,169	2,434	-	14,603
Machinery and Equipment	2,057	1,081	22	3,116
Total Accumulated Depreciation	1,382,147	127,408	19,492	1,490,063
Total Capital Assets Being Depreciated, Net	2,469,109	205,312	15,627	2,658,794
Business-Type Activities Capital Assets, Net	<u>\$ 2,881,747</u>	<u>\$ 409,705</u>	<u>\$ 346,005</u>	<u>\$ 2,945,447</u>

<sup>a</sup> The capital assets for governmental activities include the capital assets of the internal service funds. Schedules I-1, I-2, and I-3 provide additional information on the governmental funds capital assets.

**Table 5-2**

**DEPRECIATION EXPENSE BY FUNCTION**  
*(In Thousands)*

**GOVERNMENTAL ACTIVITIES**

General Government	\$ 14,408
Public Safety	941
Judicial	64
Transportation	25,456
Economic Environment	10
Culture and Recreation	<u>20,463</u>
Subtotal	61,342
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	<u>13,078</u>
Total Governmental Activities	<u>\$ 74,420</u>

**BUSINESS-TYPE ACTIVITIES**

Light	\$ 75,209
Water	31,363
Solid Waste	2,657
Drainage and Wastewater	14,664
Planning and Development	972
Parking Garage	<u>2,543</u>
Total Business-Type Activities	<u>\$ 127,408</u>

## (6) COMPENSATED ABSENCES

### GOVERNMENTAL FUNDS

Unpaid compensated absences associated with governmental fund operations of \$51.3 million and \$48.4 million at December 31, 2004 and 2003, respectively, have been recorded in the government-wide statements. These amounts include unpaid holiday, compensatory, merit, and furlough time of \$11.1 million and \$11.0 million at the end of 2004 and 2003, respectively; accumulated unpaid vacation pay of \$31.4 million and \$29.3 million at the end of 2004 and 2003, respectively; and the balance for sick leave which was estimated based on the termination method.

### PROPRIETARY FUNDS

Unpaid compensated absences for the proprietary and pension trust funds were \$23.1 million and \$22.2 million on December 31, 2004 and 2003, respectively, as follows:

**Table 6-1    COMPENSATED ABSENCES IN PROPRIETARY AND PENSION TRUST FUNDS**  
*(In Thousands)*

	<u>2004</u>	<u>2003</u>
<b>Enterprise Funds</b>		
Light	\$ 10,849	\$ 10,718
Water	3,616	3,413
Drainage and Wastewater	2,025	1,911
Solid Waste	1,085	1,024
Planning and Development	1,984	1,809
<b>Internal Service Funds</b>		
Fleets and Facilities	1,622	1,603
Information Technology	1,170	1,073
Engineering Services	506	478
<b>Pension Trust Funds</b>		
Employees' Retirement	55	52
Firemen's Pension	114	91
Police Relief and Pension	<u>62</u>	<u>62</u>
Totals	<u>\$ 23,087</u>	<u>\$ 22,234</u>

Compensated absences in governmental activities and business-type activities are presented in the aggregate in Note 8, Long-Term Debt, Table 8-5, which also shows the amount estimated to be due within the year.

## **(7) LEASES**

### **CAPITAL LEASES**

The City leases certain office equipment under various capital lease agreements. The City's capital lease obligations and the related assets were recorded in the appropriate funds and government-wide statements. The net capital lease assets shown below reflect those continuing to be financed through capital leases. The minimum capital lease payments reflect the remaining capital obligations on these assets.

**Table 7-1    CAPITAL LEASES**  
*(In Thousands)*

<u>Net Capital Lease Assets</u>	<u>Capital Assets Governmental Activities</u>
Machinery and Equipment	\$ 156
Less Accumulated Depreciation	<u>(109)</u>
December 31, 2004	<u>\$ 47</u>
<u>Minimum Capital Lease Payments</u>	<u>Long-Term Liabilities Governmental Activities</u>
2005	\$ 37
2006	16
2007	13
2008	<u>3</u>
Total Minimum Lease Payments	69
Less Interest	<u>(7)</u>
Principal	<u>\$ 62</u>

The principal portion of the minimum capital lease payments is also presented in Table 8-5 of Note 8, Long-Term Debt.

## OPERATING LEASES

### Governmental Activities

The City has operating lease commitments for both real and personal property managed by the Fleets and Facilities Department, which also manages the buildings and facilities owned by the City. Most leases for real property are maintained for a duration of three years and are renewable at the end of the lease period. Fleets and Facilities paid rentals of \$4.3 million and \$6.8 million in 2004 and 2003, respectively, on the leases. There are no projected rent increases apart from lease agreements entered into by the City.

In addition, Seattle Center leases a building for office space and workshop on a type of lease called a “triple net lease” for its Technical Facilities Management. The lease agreement commenced on July 17, 2000, and expires on July 30, 2010, requiring a fixed rent of \$18,500 per month subject to increases on each July 1 beginning in 2001 and every year thereafter by the percentage of change, if any, in the Consumer Price Index (CPI) for All Urban Consumers, United States Average for All Items (1982 - 84 = 100) published by the Bureau of Labor Statistics, United States Department of Labor CPI from the CPI last published in the preceding year, but not to exceed five percent for any lease year. If there is a decline in the CPI, the fixed rent during the succeeding year will be equal to the fixed rent during the immediate preceding year. All other amounts required by the landlord to be paid by Seattle Center on the lease shall constitute additional rent. On a triple net lease, Seattle Center will pay all impositions on the lease, insurance premiums, utilities, taxes, operating expenses, maintenance charges, repair costs, and other charges, costs, and expenses which arise or may be contemplated during the lease term. Seattle Center paid rent of \$258,314 and \$252,803 for 2004 and 2003, respectively, on the lease. Rents are paid as they become due and payable.

Minimum payments under the leases are:

**Table 7-2**

### OPERATING LEASE COMMITMENTS GOVERNMENTAL ACTIVITIES (In Thousands)

Year Ending December 31	Minimum Lease Payments		
	Fleets and Facilities	Seattle Center	Total
2005	\$ 2,799	\$ 243	\$ 3,042
2006	2,414	243	2,657
2007	1,500	243	1,743
2008	1,500	243	1,743
2009	1,500	243	1,743
Thereafter	-	142	142
Total	<u>\$ 9,713</u>	<u>\$ 1,357</u>	<u>\$ 11,070</u>

### Business-Type Activities

In December 1994 the City entered into an agreement on behalf of the Seattle City Light Department for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996 the City purchased the building in which these facilities are located, thus becoming the Department’s lessor. The Department also has two other long-term operating leases for smaller facilities used for office and storage purposes. Expense under the leases totaled \$3.9 million and \$3.8 million in 2004 and 2003, respectively. Deferred credits related to the ten-year lease of office facilities in downtown Seattle totaled \$0.5 million and \$0.9 million at December 31, 2004, and December 31, 2003, respectively. There are no scheduled rent increases apart from these lease agreements.

Minimum payments under the leases are:

**Table 7-3**

**OPERATING LEASE COMMITMENTS  
CITY LIGHT  
(In Thousands)**

<u>Year Ending December 31</u>	<u>Minimum Payments</u>
2005	\$ 3,780
2006	508
2007	118
2008	91
2009	4
Total	<u>\$ 4,501</u>

**LEASE REVENUES - GOVERNMENTAL ACTIVITIES**

The Fleets and Facilities Department collects occupancy charges from the various tenants occupying real property owned or leased by the City. These tenants include other City departments, social service agencies, and private businesses. Social service agencies frequently pay occupancy charges at reduced rates in consideration of offsetting benefits accruing to the City as a result of the services they provide.

**Table 7-4 MAJOR SOURCES OF RENTAL INCOME ON REAL PROPERTY MANAGED BY  
FLEETS AND FACILITIES**

	<u>2004</u>
Non-City Property Subleased to City Departments	\$ 4.3 million
City-Owned Property Occupied by City Departments	23.3 million
City-Owned Property Leased to Non-City Tenants	8.7 million

The amounts in the above table include the following:

- The City owns the Seattle Municipal Tower Building. In 2004 the gross rental revenues of the building recognized in the General Fund amounted to \$15.2 million. Of this amount, \$8.4 million relates to City department tenants.
- The Police Support Facility provides rental space for tenants. The gross rental revenues of the facility recognized in 2004 in the General Fund amounted to \$2.0 million of which \$0.7 million relates to City department tenants.
- Other City buildings, including non-City owned buildings, generated \$19.1 million in gross rental revenues accounted for in the Fleets and Facilities Fund, an internal service fund. Of this amount, \$14.2 million relates to City department tenants.

Additionally, in 2004 the City recognized \$6.2 million in parking revenues in the Downtown Parking Garage Fund, an enterprise fund, from the operation of the garage at Pacific Place. The City obtained a beneficial transfer of ownership of the garage financed by the \$73.8 million limited tax general obligation bonds issued in 1998 for this purpose.

The Seattle Park Garage, acquired in March 2000, reported \$1.5 million of parking revenues in 2004 in the Fleets and Facilities Operating Fund. Garage operations in the Key Tower Building also generated \$1.5 million in parking revenues in 2004.

## (8) LONG-TERM DEBT

### GENERAL OBLIGATION BONDS

The City issues general obligation bonds to provide funding for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues two types of general obligation bonds, limited tax general obligation bonds (LTGO) and unlimited tax general obligation bonds (UTGO).

At the end of 2003 the original amount of general obligation bonds issued in prior years was \$1.2 billion. The amount of bonds outstanding at December 31, 2003, was \$958.9 million. The following two paragraphs discuss the bond defeasance activity and the general obligation bonds issued during 2004.

On April 1, 2004, the City defeased \$4.3 million of the 1994 LTGO Seattle Center Coliseum bonds. The City placed its own resources of \$4.6 million in an irrevocable trust to provide for future debt service payments on the bonds. The defeased bonds are included in Table 8-6 under the “Advance and Current Refundings” section of this note.

On May 24, 2004, the City issued the \$91.8 million LTGO refunding bonds with interest rates ranging from 2.0 percent to 5.0 percent and which mature serially from July 1, 2004, through January 1, 2020, to refund \$88.0 million of the LTGO bonds, 1996, Series A. The proceeds of the bond issuance were placed in an irrevocable trust for the purchase of federal, state, and local government securities to provide for future debt service on the refunded bonds, which are scheduled to be called on January 15, 2006. Further discussion on the refunding is shown in the “Advance and Current Refundings” section of this note.

The City had no short-term general obligation debt at the end of 2004.

The following table presents the individual general obligation bonds outstanding as of December 31, 2004, and other relevant information on each outstanding bond issue.

Table 8-1

GENERAL OBLIGATION BONDS  
(In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Date	Effective	Bond Issuance	Redemptions		Bonds
			Interest Rate		2004	To Date <sup>a</sup>	Outstanding December 31
LIMITED TAX GENERAL OBLIGATION (LTGO) BONDS - NON-VOTED							
Fire Apparatus, 1993	02/01/93	07/01/93-05	4.637 %	\$ 785	\$ 75	\$ 710	\$ 75
Seattle Center Coliseum, 1994	03/17/94	10/01/97-14	7.065	73,400	7,565	73,400	-
Seattle Community Center, Fire Apparatus, Police Equipment, 1994	06/09/94	12/01/95-04	4.550	15,850	125	15,850	-
Various Purpose-West Precinct, HRIS, 9th & Lenora & COPs Refunding, 1995	12/28/95	07/01/96-15	5.122	28,670	1,075	14,600	14,070
Various Purpose-Concert Hall, Key Tower, Police Support Facility, 1996 Series A	08/01/96	01/15/04-20	5.920	97,740	89,410	89,410	8,330
Various Purpose-Key Tower, Police Support Facility, 1996 Series B	08/01/96	01/15/97-04	7.235	16,790	2,345	16,790	-
Various Purpose-Key Tower, Police Support Facility, 1996 Series C	08/28/96	01/15/20-26	2.400 <sup>b</sup>	5,595 <sup>c</sup>	-	-	5,595
Various Purpose-Key Tower, Police Support Facility, 1996 Series D	10/06/99	01/15/23-24	1.650 <sup>b</sup>	51,925 <sup>c</sup>	-	-	51,925
Various Purpose-Sand Point, Convention Center, Transportation, 1997 Series A	02/06/97	08/01/97-17	5.199	26,670	1,690	10,625	16,045
SFMS Redevelopment, 1997 Series B	10/16/97	08/01/98-04	4.334	7,725	1,235	7,725	-
Refunding-Various LTGO Bonds, 1998 Series B	03/17/98	09/01/98-12	4.493	43,710	3,150	21,700	22,010
Summit, 1998 Series C	08/26/98	08/01/99-04	4.105	6,210	1,140	6,210	-
Deferred Interest Parking Garage, 1998 Series E	11/12/98	12/15/01-14	4.714	13,042	1,003	1,673	11,369 <sup>d</sup>
Parking Garage, 1998 Series F	11/12/98	12/15/14-28	5.148	60,805	-	-	60,805
Various Purpose-Civic Center, Galer St, 1999 Series B	10/19/99	12/01/00-28	5.677	85,500	4,475	19,900	65,600
Various Purpose-Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	4,685	16,510	113,250
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	4,715	10,295	115,215
Improvement (Various) and Refunding, 2002 Series B	09/26/02	10/01/03-14	3.127	64,560	1,840	3,640	60,920
Various Purpose and Refunding, 2003	02/26/03	08/01/04-23	3.469	60,855	1,080	1,080	59,775
Refunding, 2004	05/24/04	07/01/04-20	4.118	91,805	2,065	2,065	89,740
Total Limited Tax General Obligation Bonds				1,006,907	127,673	312,183	694,724
UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS - VOTED							
Fire Station/Shops, 1968 Series 1	10/01/68	10/01/70-08	4.726	1,700	75	1,365	335
Sewer Improvement, 1968 Series 1	10/01/68	10/01/70-08	4.726	7,000	310	5,625	1,375
Refunding-Various UTGO Bonds, 1998 Series A	03/17/98	09/01/98-17	4.470	53,865	3,310	27,925	25,940
Library Facilities, 1999 Series A	07/01/99	12/01/00-18	5.135	100,000	4,135	17,260	82,740
Improvement (Library Facilities) and Refunding, 2002	09/26/02	12/01/03-21	3.892	117,025	8,000	14,945	102,080
Total Unlimited Tax General Obligation Bonds				279,590	15,830	67,120	212,470
Total General Obligation Bonds				\$ 1,286,497	\$ 143,503	\$ 379,303	\$ 907,194

<sup>a</sup> Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

<sup>b</sup> Variable-rate bonds – interest rates in effect December 31, 2004. Effective September 3, 2003, the bonds were changed from weekly to term mode and interest became payable semiannually. These rates were used to calculate annual debt service interest requirements for these bonds.

<sup>c</sup> Of the original \$57.52 million taxable 1996C bonds, \$17 million were converted in October 1999 and \$34.925 million were converted in February 2003 to nontaxable 1996D bonds.

<sup>d</sup> The accreted value of the outstanding bonds as of December 31, 2004, is \$15,063,694. The difference is also recognized as long-term accrued interest in the Downtown Parking Garage Fund, an enterprise fund.



The requirements to amortize the general obligation bonds as of December 31, 2004, are presented in the following table. Debt service for the LTGO bonds is met by operating transfers generally from the General Fund and certain special revenue funds and by reimbursements from and allocations to proprietary funds of the City. Debt service for the UTGO bonds is covered by property tax levies that authorized the bond issues and were approved by at least 60 percent of the voters in elections in which the number of voters exceeded 40 percent of the voters in the most recent election preceding the election to vote on the bond issue.

**Table 8-2**                      **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**  
**GENERAL OBLIGATION BONDS**  
*(In Thousands)*

Year Ending December 31	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2005	\$ 88,615	\$ 37,953	\$ 2,000	\$ 3,676	\$ 132,244
2006	61,830	34,379	1,881	3,725	101,815
2007	46,915	31,700	1,960	3,782	84,357
2008	41,880	29,661	2,039	3,853	77,433
2009	42,665	27,757	1,205	3,934	75,561
2010-2014	198,375	110,324	6,949	21,149	336,797
2015-2019	165,325	64,263	18,960	13,618	262,166
2020-2024	105,285	29,246	30,185	7,579	172,295
2025-2029	63,365	12,416	10,400	840	87,021
2030-2032	17,360	1,551	-	-	18,911
Total	\$ 831,615	\$ 379,250	\$ 75,579	\$ 62,156	\$ 1,348,600

## REVENUE BONDS AND REVENUE ANTICIPATION NOTES

The City also issues revenue bonds to provide financing for the capital programs of the four utilities of the City, namely, City Light and the utilities grouped under Seattle Public Utilities, which are Water, Drainage and Wastewater, and Solid Waste. The City does not pledge its full faith and credit for the payment of debt service on revenue bonds. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility. At the end of 2003 the original amount of revenue bonds and anticipation notes issued in prior years was approximately \$3.7 billion. The total outstanding amount at December 31, 2003, was \$2.5 billion. During 2004 an additional \$431.7 million of revenue bonds and \$1.8 million of revenue anticipation notes were issued as noted in the following paragraphs.

### City Light

On December 23, 2004, the City issued \$284.9 million in Municipal Light and Power (ML&P) Improvement and Refunding Revenue bonds that bear interest at rates ranging from 3.0 percent to 5.25 percent and mature serially from August 1, 2005, through August 1, 2025, with term bonds to mature from 2026 through 2029. Proceeds were used to finance certain capital improvements and conservation programs and to refund certain 1995 Series A, 1996, and 1999 ML&P parity bonds. See "Advance and Current Refundings" section of this note for further discussion on the refunding.

### Water

On October 25, 2004, the City issued \$84.8 million in Water System Revenue bonds, with varying annual principal payments due from September 1, 2005, through September 1, 2034, with interest rates ranging from 3.0 percent to 5.0 percent. Proceeds of the issuance are used to finance certain capital improvement projects and conservation programs for the Utility.

### Drainage and Wastewater

On October 28, 2004, the City issued \$62.0 million in Drainage and Wastewater Revenue bonds with varying annual principal payments due from September 1, 2005, through September 1, 2034, with varying interest rates ranging from 2.5 percent to 5.0 percent. Proceeds of the issuance are being used to finance certain capital improvements and additions to the drainage and wastewater system.

### Solid Waste

On November 3, 2003, the City issued the Solid Waste Revenue bond anticipation notes (nonrevolving line of credit). The City may draw on the line of credit an amount not to exceed \$21.3 million maturing on July 1, 2005. The first draw on the line of credit was in the amount of \$6.2 million on November 3, 2003. In 2004 the City made another \$1.8 million draw on the line of credit. Interest on the draw is at a variable rate equal to either the LIBOR-based (London Inter-Bank Offering Rate) rate or the prime-based rate, as designated by the Director of Finance or designee.

The business-type funds had no short-term debt at December 31, 2004.

The following table presents the individual revenue bonds and anticipation notes outstanding as of December 31, 2004, and other pertinent information on each outstanding bond issue.

**Table 8-3 REVENUE BONDS AND REVENUE ANTICIPATION NOTES**  
(In Thousands)

Name and Purpose of Issue	Issuance	Maturity	Effective	Bond	Redemptions		Bonds
	Date	Dates	Interest Rates <sup>a</sup>		Issuance	2004	To Date <sup>b</sup>
MUNICIPAL LIGHT AND POWER (ML&P) BONDS							
1990 Subordinate Lien	11/27/90	11/01/96-15	1.10-5.25	\$ 25,000	\$ 1,100	\$ 7,400	\$ 17,600
1991 Subordinate Lien, Series A	11/20/91	05/01/11-16	.088-6.00	25,000	-	-	25,000
1991 Subordinate Lien, Series B	11/20/91	05/01/98-11	1.30-6.00	20,000	1,400	4,900	15,100
1993 Parity and Refunding	07/14/93	11/01/93-18	5.155	453,355	20,215	453,355	-
1993 Subordinate Lien	11/17/93	11/01/99-18	.088-6.00	22,000	900	5,100	16,900
1994 Parity	12/22/94	07/01/98-20	6.629	115,000	3,450	115,000	-
1995 Parity, Series A	09/28/95	09/01/99-20	5.633	60,000	53,875	60,000	-
1995 Parity, Series B	10/16/95	09/01/98-05	4.446	2,305	-	1,849	456
1996 Parity	10/31/96	10/01/02-21	5.670	30,000	26,175	27,945	2,055
1996 Subordinate Lien	12/11/96	06/01/02-21	1.00-5.75	19,800	715	2,060	17,740
1997 Parity	12/30/97	07/01/03-22	5.131	30,000	970	1,900	28,100
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	740	3,270	101,380
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	2,615	2,615	87,385
1999 Parity	10/27/99	10/01/06-24	5.960	158,000	138,250	138,250	19,750
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	-	-	98,830
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	3,735	3,735	499,965
2002 Parity, Refunding	12/04/02	12/01/03-14	3.470	87,735	5,080	7,540	80,195
2003 Parity, Refunding	08/20/03	11/01/04-28	3.517	251,850	9,915	9,915	241,935
2004 Parity, Refunding	12/23/04	08/01/05-29	4.159	284,855	-	-	284,855
Total Light Bonds				2,382,080	269,135	844,834	1,537,246
MUNICIPAL WATER BONDS							
1995 Adjustable Rate	09/20/95	09/01/00-25	1.890	45,000	1,200	5,500	39,500
1997 Parity	04/08/97	08/01/97-26	5.712	53,000	1,110	7,195	45,805
1998 Parity	07/04/98	10/01/99-27	5.110	80,000	1,630	8,825	71,175
1999 Parity	06/23/99	03/01/00-29	5.373	100,000	1,840	8,520	91,480
1999 Parity, Series B	10/23/99	07/01/01-29	5.912	110,000	1,960	7,360	102,640
2001 Parity	11/20/01	11/01/05-31	4.972	52,525	-	-	52,525
2002 Adjustable Rate	05/15/02	05/15/03-32	1.980	65,000	1,200	2,400	62,600
2003 Parity, Refunding	05/12/03	09/01/03-33	4.083	271,320	12,660	27,160	244,160
2004 Parity	10/25/04	09/01/05-34	4.580	84,750	-	-	84,750
Total Water Bonds				861,595	21,600	66,960	794,635
MUNICIPAL SEWER (DRAINAGE AND WASTEWATER) BONDS							
1995 Improvement/Refunding	12/28/95	12/01/96-25	5.309	40,390	1,090	6,730	33,660
1998 Parity	05/15/98	11/01/98-18	5.122	24,170	480	3,020	21,150
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	970	4,220	50,780
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	1,065	3,095	57,585
2002 Improvement/Refunding	12/17/02	07/01/03-32	4.751	78,550	1,620	2,540	76,010
2004 Parity	10/28/04	09/01/05-34	4.609	62,010	-	-	62,010
Total Drainage and Wastewater Bonds				320,800	5,225	19,605	301,195
SOLID WASTE BONDS							
1999 Refunding	01/19/99	08/01/99-09	4.839	40,900	3,570	20,015	20,885
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	200	925	4,575
Total Solid Waste Bonds				46,400	3,770	20,940	25,460
Total Utility Revenue Bonds				3,610,875	299,730	952,339	2,658,536
SOLID WASTE REVENUE ANTICIPATION NOTES							
2003	11/03/03	07/31/2005	2.200	7,976	-	-	7,976
Total Utility Revenue Bonds and Anticipation Notes				\$ 3,618,851	\$ 299,730	\$ 952,339	\$ 2,666,512

<sup>a</sup> The ML&P subordinate lien bonds are variable rate bonds for which the life-to-date actual low and high rates are shown. The Municipal Water adjustable-rate bonds show the interest rate in effect at the end of 2004. These bonds are remarketed each week at market rates attained by remarketing agents, except for the 1990 and 1991B ML&P bonds which are in commercial paper mode and as such remarketed periodically for terms determined by the City at market rates obtained by remarketing agents. Solid Waste revenue anticipation notes are variable-rate interest notes in effect at December 31, 2004. Interest rates in effect at December 31, 2004, were used to calculate annual interest requirements for these obligations.

<sup>b</sup> Includes all bonds that matured to date and all called, refunded, and defeased bonds on issues that have outstanding balances at the beginning of the year.

The requirements to amortize the revenue bonds and anticipation notes as of December 31, 2004, are presented below.

**Table 8-4**                      **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**  
**REVENUE BONDS AND REVENUE ANTICIPATION NOTES**  
*(In Thousands)*

Year Ending December 31	Light		Water		Drainage and Wastewater		Solid Waste		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2005	\$ 64,596	\$ 68,319	\$ 22,470	\$ 36,333	\$ 6,325	\$ 14,681	\$ 11,941	\$ 1,470	\$ 226,135
2006	63,435	70,929	21,695	36,075	6,755	14,881	4,170	1,174	219,114
2007	66,755	68,044	19,590	35,215	7,035	14,601	4,390	956	216,586
2008	70,460	64,786	20,720	34,389	7,320	14,307	4,635	716	217,333
2009	74,260	61,327	21,645	33,486	7,670	13,971	4,885	717	217,961
2010-2014	384,140	253,831	124,395	152,129	44,095	64,106	1,480	819	1,024,995
2015-2019	375,240	160,822	157,290	121,248	56,315	51,994	1,935	354	925,198
2020-2024	319,765	74,116	184,565	80,590	63,700	36,161	-	-	758,897
2025-2029	118,595	10,413	157,550	38,604	66,335	19,272	-	-	410,769
2030-2034	-	-	64,715	9,311	35,645	4,318	-	-	113,989
Total	<u>\$ 1,537,246</u>	<u>\$ 832,587</u>	<u>\$ 794,635</u>	<u>\$ 577,380</u>	<u>\$ 301,195</u>	<u>\$ 248,292</u>	<u>\$ 33,436</u>	<u>\$ 6,206</u>	<u>\$ 4,330,977</u>

The following table shows the long-term liability activity during the year ended December 31, 2004.

**Table 8-5** **CHANGES IN LONG-TERM LIABILITIES**  
(In Thousands)

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 885,715	\$ 89,740	\$ 140,435	\$ 835,020	\$ 89,565
Add (Deduct) Deferred Amounts					
Issuance Premiums	6,804	4,322	1,690	9,436	-
Issuance Discounts	(3)	-	-	(3)	-
On Refunding	(1,916)	(5,056)	(3,919)	(3,053)	-
Total Bonds Payable	890,600	89,006	138,206	841,400	89,565
Notes and Contracts					
Capital Leases	94	-	32	62	32
Other Notes and Contracts	22,838	370	1,975	21,233	2,093
Total Notes and Contracts	22,932	370	2,007	21,295	2,125
Compensated Absences	51,579	48,715	45,662	54,632	11,942
Claims Payable					
Workers' Compensation	16,441	6,961	6,020	17,382	5,674
General Liability	61,952	17,743	26,779	52,916	15,871
Health Care Claims	7,958	8,424	7,958	8,424	8,424
Total Claims Payable	86,351	33,128	40,757	78,722	29,969
Arbitrage Rebate Liability	1,370	141	1,268	243	35
Total Long-Term Liabilities from Governmental Activities	<u>\$ 1,052,832</u>	<u>\$ 171,360</u>	<u>\$ 227,900</u>	<u>\$ 996,292</u>	<u>\$ 133,636</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable					
General Obligation Bonds	\$ 73,177	\$ -	\$ 1,003	\$ 72,174	\$ 1,050
Revenue Bonds	2,526,651	429,685	297,800	2,658,536	97,356
Add (Deduct) Deferred Amounts					
Issuance Premiums	46,026	20,873	4,507	62,392	-
Issuance Discounts	(5,090)	-	(1,189)	(3,901)	-
On Refunding	(53,607)	(19,662)	(5,777)	(67,492)	-
Total Bonds Payable	2,587,157	430,896	296,344	2,721,709	98,406
Revenue Anticipation Notes Payable	6,200	1,776	-	7,976	7,976
Accrued Interest - Deferred Interest Bonds	3,257	725	287	3,695	370
Notes and Contracts - Other	1,220	740	128	1,832	127
Compensated Absences	18,875	21,870	21,186	19,559	1,383
Claims Payable					
Workers' Compensation	5,913	2,075	1,739	6,249	2,040
General Liability	11,696	7,194	1,891	16,999	6,147
Environmental Liability					
General Contamination Cleanup	11,554	4,995	1,669	14,880	3,950
NOAA Settlement	144	-	144	-	-
Total Claims Payable	29,307	14,264	5,443	38,128	12,137
Arbitrage Rebate Liability	82	-	82	-	-
Landfill Closure and Postclosure Costs	27,423	4,700	1,094	31,029	1,785
Purchased Power Obligation	45,130	-	9,467	35,663	10,705
Total Long-Term Liabilities from Business-Type Activities	<u>\$ 2,718,651</u>	<u>\$ 474,971</u>	<u>\$ 334,031</u>	<u>\$ 2,859,591</u>	<u>\$ 132,889</u>

<sup>a</sup> See Note 14, Contingencies, for a discussion of risk management, environmental, and other matters. The table in Note 14 also includes information on workers' compensation and health care.

The City's internal service funds predominantly serve governmental funds. For this reason the above totals in the governmental activities include the long-term liabilities for these funds. At the end of the year notes and contracts, compensated absences, and claims payable of these funds amounted to approximately \$1.1 million, \$3.3 million, and \$1.5 million, respectively, and are liquidated from each fund's own resources. Notes and contracts (including public works trust loan), compensated absences, and workers' compensation not pertaining to the internal service funds are liquidated as they become due and payable from governmental funds that provide budgets to operating City departments. These governmental funds include the General Fund, Park and Recreation Fund, Transportation Fund, Library Fund, Seattle Center Fund, Human Services Fund, and the Office of Housing Fund. All general liability and health care claims are liquidated using the General Fund, except for general liabilities that are to be liquidated from the Engineering Services Fund, an internal service fund, amounting to approximately \$288,000. Arbitrage rebate liabilities in governmental activities are paid as they are due and usually come from available resources in governmental funds that received the related bond proceeds and investment earnings from the proceeds.

In addition to paying for debt service on the bond issues for business-type City operations, each business-type fund liquidates its respective other long-term liabilities, with the exception of the Department of Planning and Development (DPD) for general liability. The General Fund pays for DPD's general liability, if any. Environmental liabilities of business-type activity funds are paid respectively from the utility funds. Purchased power obligations are obligations of City Light and therefore paid from the Light Fund. For further discussion on purchased power, see Note 13, Commitments.

### ADVANCE AND CURRENT REFUNDINGS

In order to lower interest costs, the City refunded and defeased certain bonds. To do so, the City issued new refunding bonds and used its own resources. City resources and the proceeds of refunding bonds are placed in irrevocable trusts for the purchase of federal, state, and local government securities to provide for all future debt service on the old bonds. As a result, the old bonds including those refunded are considered defeased, and the corresponding liabilities are not included in the statement of net assets. The following paragraphs discuss the advance and current refundings that occurred in 2004.

The LTGO Refunding bonds, 2004, issued on May 24, 2004, in the amount of \$91.8, refunded \$88.0 million of the 1996 LTGO, Series A bonds. The aggregate total debt service on the refunded bonds requires a cash flow of \$138.8 million, including \$50.8 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of \$131.5 million including interest of \$39.7 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$7.3 million, and the aggregate economic gain amounted to \$5.8 million at net present value.

The refunding portion of the 2004 ML&P Improvement and Refunding Revenue bonds issued in December 2004 in the amount of \$226.5 million, refunded \$53.6 million, \$25.2 million, and \$138.3 million of the 1995, Series A, 1996 and 1999 ML&P parity bonds respectively. The aggregate total debt service on the refunded bonds requires a cash flow of \$371.5 million including \$154.5 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of \$349.1 million, including \$122.6 million in interest. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled \$22.4 million, and the aggregate economic gain amounted to \$12.1 million at net present value.

The following is a schedule of outstanding bonds that are either refunded or defeased.

**Table 8-6**

**REFUNDED/DEFEASED BONDS**  
*(In Thousands)*

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Original Bond Issuance	Amount Transferred To Trustee	Trustee Redemptions To Date 2004	Defeased Outstanding December 31
<b>GENERAL OBLIGATION BONDS</b>							
Limited Tax (Non-Voted)							
Seattle Center Coliseum, 1994 (defeased September 24, 2002)	03/17/94	10/01/97-14	7.065	\$ 73,400	\$ 26,140	\$ 26,140	\$ -
Seattle Center Coliseum, 1994 (refunded September 26, 2002)					13,080	13,080	-
Seattle Center Coliseum, 1994 (refunded February 26, 2003)					3,625	3,625	-
Seattle Center Coliseum, 1994 (defeased July 25, 2003)					4,935	4,935	-
Seattle Center Coliseum, 1994 (defeased April 1, 2004)					4,335	4,335	-
Total Defeased/Refunded - Seattle Center Coliseum, 1994				73,400	52,115	52,115	-
Various Purpose - Concert Hall, Key Tower, Police Support Facility, 1996 Series A	08/01/96	01/15/04-20	5.920	97,740	88,000	-	88,000
<b>REVENUE BONDS</b>							
Municipal Light and Power							
1977 Parity	08/01/77	08/01/77-05	5.343	29,000	21,300	19,100	2,200
1993 Parity and Refunding	07/14/93	11/01/93-18	5.155	453,355	182,345	140,410	41,935
1994 Parity	12/22/94	07/01/98-20	6.629	115,000	97,255	2,575	94,680
1995 Parity, Series A	09/28/95	09/01/99-20	5.633	60,000	53,610	1,770	51,840
1996 Parity	10/31/96	10/01/02-21	5.670	30,000	25,225	-	25,225
1999 Parity	10/27/99	10/01/06-23	5.960	158,000	138,250	-	138,250
Total Refunded/Defeased Bonds				\$ 1,016,495	\$ 658,100	\$ 215,970	\$ 442,130

## ARBITRAGE

Since 1995 the City has been reviewing arbitrage rebate liability on its outstanding tax-exempt bonds and certificates of participation under Section 148(f) of the Internal Revenue Code. For bonds that have reached their installment computation dates (bonds outstanding for five years initially and every five years thereafter until the last of the bond issue matures) the City paid no arbitrage rebate in 2003 but paid \$1.3 million in 2004 on the City's general obligation bonds. The City paid approximately \$378,500 and none in 2003 and 2004, respectively, for ML&P revenue bonds; none in 2003 and 2004 for Water System revenue bonds, Drainage and Wastewater revenue bonds, but paid about \$82,300 in 2004 for Solid Waste revenue bonds but none for 2003. The City estimated and recognized as of the end of 2004 an arbitrage rebate liability of approximately \$243,000 on general obligation bonds, approximately \$35,000 of which is estimated to be due in 2005. There are no arbitrage liability at the end of 2004 on the ML&P revenue bonds, Water revenue bonds, Drainage and Wastewater revenue bonds, and Solid Waste revenue bonds.

## (9) FUND EQUITY

The following table compares the total legally required encumbrance and other appropriation carryovers with the amounts reported in the balance sheet as reserved for encumbrances, capital improvements, continuing appropriations, debt service, endowments, and gifts.

Grant awards usually extend beyond the end of the fiscal year, and so any unspent budget amounts for grants at the end of the year are carried over to the following year. Funding for these grants comes from revenues that are anticipated to be received in the following years. For this reason it is not necessary to reserve part of the fund balance for the amount of the grants continuing appropriations.

In certain capital projects not all of the fund balances were appropriated. However, the total fund balances were reserved for capital improvements.

Additionally, some budget carryovers are not reported because either the fund balance is insufficient or the City Council plans to abandon the remaining budget.

**Table 9-1** **RESERVED FUND BALANCES**  
(In Thousands)

Governmental Funds	Legally Required Carryovers			Reserved for Encumbrances, Capital Improvements, Continuing Appropriations, and Debt Service	
	Outstanding Encumbrances	Continuing Appropriations	Total	Reported	Not Reported
<b>BUDGETED</b>					
General	\$ 13,797	\$ 38,338	\$ 52,135	\$ 69,867	\$ (17,732)
Special Revenue					
Annually Budgeted/Operating	44,547	74,698	119,245	48,350	70,895
Nonoperating	5,084	18,740	23,824	9,200	14,624
Capital Projects	27,223	164,383	191,606	101,296	90,310
Total Budgeted	90,651	296,159	386,810	228,713	158,097
<b>NONBUDGETED</b>					
Debt Service	-	14,935	14,935	14,935	-
Total Nonbudgeted	-	14,935	14,935	14,935	-
Total Reserved Fund Balances	\$ 90,651	\$ 311,094	\$ 401,745	\$ 243,648	\$ 158,097

## (10) PENSIONS, DEFERRED COMPENSATION, AND OTHER POSTEMPLOYMENT BENEFITS

City of Seattle employees are covered in one of the following defined benefit pension plans: Seattle City Employees' Retirement System (SCERS), Firemen's Pension Fund, Police Relief and Pension Fund, and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). The first three plans are considered as part of the City's reporting entity and are reported as pension trust funds. The State of Washington through the Department of Retirement Systems (DRS) administers and reports LEOFF.

### SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

#### Plan Description

The Seattle City Employees' Retirement System (SCERS) is a single-employer defined-benefit public employee retirement system established and administered by the City in accordance with Seattle Municipal Code (SMC) 4.36.



All employees of the City of Seattle are eligible for membership in the system with the exception of law enforcement officers and fire fighters who are covered under the statewide LEOFF plans administered by the state Department of Retirement Systems. Employees of METRO and the King County Health Department who established membership in the system when these organizations were City of Seattle departments were allowed to continue their membership. Current membership in SCERS consisted of the following at December 31, 2004:

Retirees and Beneficiaries Receiving Benefits	4,927
Terminated Plan Members Entitled To But Not Yet Receiving Benefits, Vested	1,418
Terminated Plan Members Who Have Restored Their Contributions Due to the Provisions of the Portability Statutes and May Be Eligible for Future Benefits, Vested	234
Active Plan Members, Vested and Non-vested	8,570

The system provides retirement, death, and disability benefits. Retirement benefits vest after 5 years of credited service, while death and disability benefits vest after 10 years of service. Retirement benefits are calculated as 2 percent multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. City employees may retire at any age with 30 years of service, at age 52 or older with 20-29 years of service, at age 57 or older with 10-19 years of service, and at age 62 or older with 5 to 9 years of service. These benefit provisions and all other requirements are established and may be amended by City ordinances.

The Seattle City Employees Retirement System issues a stand-alone financial report. A copy of the report is available from the Seattle City Employees' Retirement System at 720 Third Avenue, Suite 1000, Seattle, WA 98104; by telephone at 206-386-1293; or by accessing the web site [http://www.seattle.gov/retirement/annual\\_report.htm](http://www.seattle.gov/retirement/annual_report.htm)

## Summary of Significant Accounting Policies

### Basis of Accounting

The Seattle City Employees' Retirement System is accounted for as a pension trust fund. The financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting as discussed in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets are recognized when the transactions or events occur. Employee and employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with plan terms.

Investments, including security lending transactions, as discussed in Note 3, are reported at fair market value. The fair market value of investments in common stock, international equities, fixed income, international fixed income, and short-term investments is based on the quoted market price. The fair market value of venture capital and real estate equities has been determined by independent appraisers. Securities and security lending transactions are reflected in the financial statements on a trade-date basis. Investment policies as set by the Retirement Board require that investments in any one corporation or organization may not exceed 5 percent of net assets available for benefits.

## Contributions and Reserves

Member and employer contribution rates are established by the SMC 4.36.

SCERS funding policy provides for periodic employee and employer contributions at actuarially determined rates expressed as percentages of annual covered payroll to accumulate sufficient assets to pay benefits when due. Funds accumulated and investment earnings are used to pay present and future benefit obligations and administrative expenses. The employer contribution rate is determined by the actuarial formula identified as the Entry-Age Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total necessary contributions, including amounts necessary to pay administrative costs, are determined through biennial actuarial valuations.

Actuarially determined contribution rates are currently 8.03 percent for members and 8.03 percent for the employer. There are no long-term contracts for contributions outstanding and no legally required reserves.

As of December 31, 2003, based on the actuarial valuation of January 1, 2004, the actuarial value of plan net assets available for benefits was \$1,527.5 million, and the actuarial accrued liability was \$1,778.9 million. The unfunded actuarial accrued liability (UAAL) was \$251.4 million and the funding ratio was 85.9 percent.

Three-year trend information (in thousands) is shown below:

Fiscal Year Ending December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
2001	\$ 11,571	282 %	\$ (48,078)
2002	12,496	293	(72,183)
2003	31,883	107	(74,501)

Annual pension cost (APC) and net pension obligation (NPO) (in thousands) were:

Fiscal Year Ending December 31	Annual Required Contribution (ARC) at End of Year	Interest on NPO	ARC Adjustment	Annual Pension Cost (APC)	Total Employer Contributions	Change in NPO	NPO Beginning Balance	NPO Ending Balance
2003	\$ 34,100	\$ (5,775)	\$ 3,557	\$ 31,882	\$34,200	\$ (2,318)	\$ (72,183)	\$ (74,501)

Authority to change benefits and contribution rates rests on the City Council. City ordinance does not permit a reduction in the employer contribution rate to less than the employee rate. This is the reason why the City's contributions exceeded the ARC prior to 2002 and resulted in negative NPO amounts.

Trend data on funding progress and employer contributions including pension information notes are presented in the Required Supplementary Information Section, Pension Plan Information.

## FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

### Plan Description

The Firemen's Pension and the Police Relief and Pension Funds are single-employer defined benefit pension plans that were established by the City in compliance with the requirements of the Revised Code of Washington (RCW) 41.18 and 41.20.

Since the effective date of the state LEOFF on March 1, 1970, no payroll for employees was covered under these pension plans, and the primary liability for pension benefits for these plans shifted from the City to the state LEOFF. However, the City was still liable for all benefits in pay status at that time plus any future benefits payable to active law enforcement officers and fire fighters on March 1, 1970, under the old City plan in excess of current LEOFF benefits. Generally, benefits under the LEOFF system are greater than or equal to the benefits under the old City plan when payment begins. However, LEOFF retirement benefits increase with the consumer price index (CPI - Seattle) while some City benefits increase with wages of current active members. If wages go up faster than the CPI, the City becomes liable for this residual amount. Due to this leveraging effect, projection of the City of Seattle's liabilities is especially sensitive to the difference between wage and CPI increase assumptions.

All law enforcement officers and fire fighters of the City who served before March 1, 1970, are participants of these pension plans; and those hired between March 1, 1970, and September 30, 1977, are eligible for a supplemental retirement benefit plus sick benefits under these plans. Eligible law enforcement officers may retire with full benefits after 25 years of service at any age and fire fighters at age 50 after completing 25 years of service. These pension plans provide death and disability pension benefits plus sick benefits for eligible active and retired employees. In addition, these plans provide medical benefits in accordance with state statutes and City ordinances to active and retired members from the City. Currently 1,091 fire and 1,021 police retirees meet these eligibility requirements. The City fully reimburses the amount of valid claims for medical and hospitalization costs incurred by active members and pre-Medicare retirees. The City also reimburses the full amount of premiums for part B of Medicare for each retiree eligible for Medicare.

The only postemployment benefits the City provides, other than death benefits, are medical benefits in the Firemen's and Police Relief and Pension plans, and these are financed on a pay-as-you-go basis. Total postemployment medical benefits for Firemen's Pension were \$7.3 million in 2004 and \$6.7 million in 2003; and for Police Relief and Pension, \$7.6 million in 2004 and \$7.8 million in 2003.

The Firemen's Pension and Police Relief and Pension benefit provisions are established in the state statute, RCW 41.16, 41.18, and 41.20 and may be amended only by the state legislature. Retirement benefits are determined under RCW 41.18 and 41.26 for Firemen's Pension and RCW 41.20 and 41.26 for Police Relief and Pension. Medical benefit payments for both plans are based on estimates of current and expected experience.

Current membership in Firemen's Pension and Police Relief and Pension consisted of the following at December 31, 2004:

	Firemen's Pension	Police Relief and Pension
Retirees and Beneficiaries Receiving Benefits	972	772
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	-	-
Active Plan Members, Vested	84	81
Active Plan Members, Nonvested	-	-

These pension plans do not issue separate financial reports.

## Summary of Significant Accounting Policies

The Firemen's Pension and Police Relief and Pension Funds are accounted for as pension trust funds. The financial statements were prepared using the economic resources measurement focus and the full accrual basis of accounting as shown in Note 1. All assets, liabilities, and additions to and deductions from (including contributions, benefits, and refunds) plan net assets of the retirement funds are recognized when the transaction or events occur. Member benefits, including refunds, are due and payable by the plan in accordance with the plan terms.

Investments are recorded at fair value as shown in Note 3. Fair value of investments is based on quoted market prices.

## Contributions and Reserves

Since these two pension plans were closed to new members effective October 1, 1997, the City did not need to adopt a plan to fund the actuarial accrued liability (AAL) but is paying benefits as they become due. Contributions are no longer required from plan members or the City departments they represent. Under state law, partial funding of the Firemen's Pension Fund may be provided by an annual tax levy of up to \$0.45 per \$1,000 of assessed value of all taxable property of the City. The Firemen's Pension Fund also receives a share of the state tax on fire insurance premiums. Additional funding through the General Fund adopted budget is provided to both pension funds as necessary. The Police Relief and Pension Fund also gets police auction proceeds of unclaimed property. Administrative costs for Firemen's Pension are financed by real estate property tax and fire insurance premium tax. Administrative costs for Police Relief and Pension are financed by police auction proceeds and General Fund support. Contribution rates are not applicable to these plans.

Three-year trend information (in thousands) for Firemen's Pension and Police Relief and Pension Funds as of the January 1, 2005, valuation are:

Retirement System	Fiscal Year Ending December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
Firemen's Pension Fund	2002	\$ 9,480	100 %	-
	2003	9,167	100	-
	2004	9,315	100	-
Police Relief and Pension Fund	2002	5,955	100	-
	2003	7,403	100	-
	2004	8,244	100	-

There are no securities held by the City for these pension funds except for the Firemen's Pension Actuarial Account described below. No loans are provided by the funds to the City or other related parties.

In July 1994 the City adopted a funding policy under Ordinance 117216 that is designed to fully fund the AAL of the Firemen's Pension Fund by the year 2018 plus additional contributions, if necessary, to fund benefit payments in excess of contributions to fully fund all retirement benefit liabilities by December 31, 2018. The funding policy does not fund for future medical liabilities. The level contributions were set aside in the Firemen's Pension Actuarial Account with a fund balance of \$5.4 million as of December 31, 2004. Level contribution has decreased to \$9.0 million from \$9.2 million based on the full actuarial valuation as of January 1, 2005. No similar program has been established for the Police Relief and Pension Fund.

The AAL as of December 31, 2004, based on the actuarial valuation as of January 1, 2005, was \$88.7 million for Firemen's Pension and \$65.7 million for Police Relief and Pension. The Police Relief and Pension AAL is funded on a pay-as-you-go basis. Annual requirements are funded through the City's adopted budget, and any budget requirements exceeding the adopted budget are fully covered by supplemental appropriations.

Following are the Firemen's Pension and Police Relief and Pension financial statements for fiscal year ending December 31, 2004:

**Table 10-1**

## STATEMENT OF NET ASSETS FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

**December 31, 2004**

*(In Thousands)*

	Firemen's Pension	Police Relief and Pension	2004	2003
<b>ASSETS</b>				
Cash and Equity in Pooled Investments	\$ 6,982	\$ 4,427	\$ 11,409	\$ 6,645
Investments at Fair Value				
U.S. Government Obligations	451	-	451	448
Receivables				
Employer - Due from Other Funds	11	-	11	8
Employer - Other	-	-	-	430
Interest and Dividends	2	-	2	2
Total Receivables	13	-	13	440
Equipment, at Cost, Net of Accumulated Depreciation	-	-	-	2
Total Assets	7,446	4,427	11,873	7,535
<b>LIABILITIES</b>				
Refunds Payable and Other - Due to Other Funds	8	29	37	35
Refunds Payable and Other - Other	1,218	2,646	3,864	1,898
Total Liabilities	1,226	2,675	3,901	1,933
Net Assets Held in Trust for Pension Benefits	<u>\$ 6,220</u>	<u>\$ 1,752</u>	<u>\$ 7,972</u>	<u>\$ 5,602</u>

Table 10-2

**STATEMENT OF CHANGES IN  
PLAN NET ASSETS  
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS  
For Year Ended December 31, 2004  
(In Thousands)**

	<u>Defined Benefit</u>		<u>Postemployment Healthcare</u>		<u>Comparative Totals</u>	
	<u>Firemen's Pension</u>	<u>Police Relief and Pension</u>	<u>Firemen's Pension</u>	<u>Police Relief and Pension</u>	<u>2004</u>	<u>2003</u>
<b>ADDITIONS</b>						
Contributions						
Employer	\$ -	\$ 8,244	\$ -	\$ 7,613	\$ 15,857	\$ 15,186
Taxes and Other	9,315	-	7,269	-	16,584	15,879
Total Contributions	9,315	8,244	7,269	7,613	32,441	31,065
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in						
Fair Value of Investments	(53)	-	-	-	(53)	(28)
Interest	130	-	-	-	130	131
Total Net Investment Income	77	-	-	-	77	103
Total Additions	9,392	8,244	7,269	7,613	32,518	31,168
<b>DEDUCTIONS</b>						
Benefits	7,609	6,954	7,269	7,613	29,445	28,162
Administrative Expense	365	338	-	-	703	755
Total Deductions	7,974	7,292	7,269	7,613	30,148	28,917
Change in Net Assets	1,418	952	-	-	2,370	2,251
Net Assets - Beginning of Year	4,802	800	-	-	5,602	3,351
Net Assets - End of Year	<u>\$ 6,220</u>	<u>\$ 1,752</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,972</u>	<u>\$ 5,602</u>

Pension trend data on funding progress, employer contributions, and notes to pension information for Firemen's Pension and Police Relief and Pension are presented in the Required Supplementary Information under Pension Plan Information.

**LAW ENFORCEMENT OFFICERS' AND FIRE FIGHTERS' RETIREMENT SYSTEM (LEOFF)  
PLANS 1 AND 2**

**Plan Description**

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined-benefit plans. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to Plans 1 and Plan 2 accrue interest at a rate specified by the state Department of Retirement System (DRS). During fiscal year 2004 the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in Plans 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the state legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. Membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the legislature for

Plan 2. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state legislature. The state of Washington, through DRS administers LEOFF.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

<u>Term of Service</u>	<u>Percent of FAS</u>
20+ years	2.0 %
10 - 19 years	1.5
5 - 9 years	1.0

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service. (FAS is based on the highest consecutive 60 months.) Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years-of-service credit; and the cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) if eligible spouse, 50 percent of the FAS plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) if no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of \$150,000 is provided to Plan 1 and Plan 2 members.

Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, and to reflect the choice of a survivor option.

Legislation passed in 2004 allows members of Plan 2 who leave service because of a line-of-duty disability to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of Plan 2 who leave service because of a line-of-duty disability may be eligible to receive a retirement allowance of at least 10 percent of final average salary. If the two-percent-per-year-of-service disability benefit, actuarially reduced for the difference between age 53 and age at retirement, results in a greater benefit than the minimum 10 percent, the member receives the greater benefit. The first 10 percent of the FAS is not subject to federal income tax. The line-of-duty disability benefit applies to all Plan 2 members disabled in the line of duty on or after January 1, 2001.

There were no other material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2004.

LEOFF pension benefit provisions have been established by RCW 41.26.

There are 488 participating employers in LEOFF as of June 30, 2004. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of September 30, 2003:

	<u>Plan 1</u>	<u>Plan 2</u>
Retirees and Beneficiaries Receiving Benefits	8,054	316
Terminated Members Entitled To But Not Yet Receiving Benefits	14	439
Active Plan Members, Vested	991	10,557
Active Plan Members, Nonvested	-	4,003
Total	<u>9,059</u>	<u>15,315</u>

All law enforcement officers and fire fighters of the City of Seattle participate in LEOFF. Current active members (vested and non-vested) are 170 under Plan 1 and 2,068 under Plan 2.

The state Department of Retirement Systems prepares a stand-alone financial report. A copy of the report that includes financial statements and required supplementary information for LEOFF may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380; by calling 360-664-7000 in Olympia or 1-800-547-6657; or by accessing their web site at <http://www.drs.wa.gov/administration/default.htm>.

## Summary of Significant Accounting Policies

LEOFF is accounted for in the pension trust funds of DRS using the economic resources measurement focus and the accrual basis of accounting. Plan members' contributions are recognized as revenues in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Venture capital and leveraged buy out investments are determined by independent investment advisors based on an analysis of the audited financial statements of the underlying partnerships. LEOFF pension plans have no investments of any commercial or industrial organization whose market value exceeds five percent or more of the plan's net assets.

## Contributions and Reserves

### Funding Policy

Employers, plan participants, and the state provide funding for all costs of the system based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Plan 2 employers and employees are required to pay at the level adopted by DRS in accordance with RCW 41.5. All employers are required to contribute at the level required by the state law.

Required contribution rates for cities (expressed as a percentage of current year covered payroll) effective September 1, 2004, are:

	LEOFF Actual Contribution Rates	
	Plan 1	Plan 2
Employer (includes an administrative expense of 0.19%)	0.19 %	3.25 %
Employee	0.00	5.09
State of Washington Contributions	0.00	2.02

Administration of the LEOFF plans was funded by an employer rate of 0.19 percent of employee salaries.

The legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For fiscal year 2004 the state contributed \$20.2 million to LEOFF Plan 2.

## Employer Contributions Required and Paid

LEOFF Annual Required Contributions (in millions) and percentage contributed in accordance with the funding policy were:

Year	Plan 1		Plan 2		
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	
2002	\$ -	N/A	\$ 43.7	91	%
2003	-	N/A	56.8	74	
2004	-	N/A	69.2	74	

The City of Seattle required and actual contributions (in thousands) are shown in the following table. Percentages contributed are not available.

	Plan 1	Plan 2
2002	\$ 38	\$ 4,217
2003	33	4,511
2004	28	4,941

There are no long-term contracts for contributions under the LEOFF retirement plans.

## Reserves

**Member Reserves.** The member reserves reflect the total liability for all contributions made by members. These reserves are increased by employee contributions and interest earnings and are decreased by contributions refunded and contributions transferred to the benefit reserves for current year retirees. The member reserves are considered fully funded. Member reserves (in thousands) were:

	June 30, 2004	June 30, 2003
Plan 1	\$106,753	\$117,838
Plan 2	915,700	832,078

**Benefit Reserves.** The benefit reserves reflect the funded liability associated with all retired members. These reserves are increased by employer contributions, state contributions, investment earnings, and employee contributions which are attributable to current year retirees. These reserves are decreased by the amounts of pensions actually paid in the current year, interest payments transferred to the member reserves, and administrative expenses. Benefit reserves (in thousands) were:

	June 30, 2004	June 30, 2003
Plan 1	\$4,602,142	\$4,197,977
Plan 2	2,011,038	1,612,275

## DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is payable to employees upon termination, retirement, death, or unforeseen emergency.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan. Under the plan, participants select investments from alternatives offered by the plan administrator, who is under contract with the City to manage the plan. Investment selection by a participant may be changed from time to time. The City manages none of the investment selections. By making the selection, enrollees accept and assume all risks that pertain to the plan and its administration.

The City placed the deferred compensation plan assets into trust for the exclusive benefit of plan participants and beneficiaries in accordance with Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.

The City has little administrative involvement and does not perform the investing function for the plan. The City does not hold the assets in a trustee capacity and does not perform fiduciary accountability for the plan. Therefore, the City



employees' deferred compensation plan created in accordance with IRC 457 is not reported in the financial statements of the City.

## (11) COMPONENT UNIT

### SEATTLE PUBLIC LIBRARY FOUNDATION

The Seattle Public Library Foundation is a Washington non-profit corporation, a public charity organized exclusively for educational, charitable, and scientific purposes for the benefit and support of the Seattle Public Library by providing goods and services and facilities over and above what the traditional tax base funding of Seattle Public Library has provided. The foundation is located in Seattle, has all the corporate powers to carry out the purposes for which it is formed, and is managed by a Board of Directors. Although the City of Seattle is not financially accountable for the Seattle Public Library Foundation, the foundation is considered a component unit and is discretely presented in the City's financial statements because of the following: (1) the economic resources received or held by the foundation are entirely for the direct benefit of the Seattle Public Library; (2) the Seattle Public Library is entitled to or has the ability to otherwise access a majority of the economic resources received or held by the foundation because the foundation has a history of supporting the library, and (3) the economic resources received or held by the foundation that the library is entitled to or has the ability to otherwise access are significant to the library.

The Seattle Public Library Foundation reports on a fiscal year-end consistent with the City of Seattle, the primary government. The Foundation issues its own audited financial statement. These statements are available at the Seattle Public Library Foundation at 1000 4th Avenue, Seattle, WA 98104, or by telephone at 206-386-4130.

Table 11-1

**CONDENSED STATEMENT OF NET ASSETS**  
**SEATTLE PUBLIC LIBRARY FOUNDATION**  
**December 31, 2004**  
*(In Thousands)*

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash, Investments, and Other Assets	\$ 57,017	\$ 68,636
Capital Assets, Net	<u>17</u>	<u>27</u>
Total Assets	57,034	68,663
<b>LIABILITIES</b>		
Current Liabilities	<u>2</u>	<u>-</u>
Total Liabilities	2	-
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	17	27
Restricted	50,101	62,254
Unrestricted	<u>6,914</u>	<u>6,382</u>
Total Net Assets	<u>\$ 57,032</u>	<u>\$ 68,663</u>

**Table 11-2**

**CONDENSED STATEMENT OF ACTIVITIES  
SEATTLE PUBLIC LIBRARY FOUNDATION  
For Year Ended December 31, 2004  
(In Thousands)**

	<u>2004</u>	<u>2003</u>
<b>EXPENSES</b>		
Support to Seattle Public Library	\$ 22,677	\$ 8,500
Management and General	313	350
Fundraising	486	597
Depreciation	<u>45</u>	<u>38</u>
Total Expenses	23,521	9,485
<b>PROGRAM REVENUES</b>		
Contributions/Endowment Gain	<u>11,229</u>	<u>9,298</u>
Net Program (Expense) Received	(12,292)	(187)
<b>GENERAL REVENUES</b>		
Investment Income	<u>661</u>	<u>1,631</u>
Change in Net Assets	(11,631)	1,444
<b>NET ASSETS</b>		
Net Assets - Beginning of Year	<u>68,663</u>	<u>67,219</u>
Net Assets - End of Year	<u><u>\$ 57,032</u></u>	<u><u>\$ 68,663</u></u>

## **(12) JOINT VENTURES**

### **SEATTLE-KING COUNTY DEPARTMENT OF PUBLIC HEALTH**

The Seattle-King County Department of Public Health is a combined City and County health department providing personal and environmental health services throughout the county. The divisions are: Administrative Services, Community-Based Public Health Practice, Jail Health Services, Environmental Health Services, Prevention, Alcohol-Tobacco-Other Drug Prevention, and Community Health Services. King County is responsible for central administration of the department, with the City directly responsible for policy and funding control over the Seattle services. Both jurisdictions share ongoing financial responsibility for funding the department's administrative services, and the City does not have an equity interest. The formula for determining each jurisdiction's share is based on their budgeted expenditures of their respective divisions or programs in relation to the total budget. The King County Executive and the Mayor jointly appoint the Director of Public Health for a four-year term. The County and City Councils confirm the appointment. The Director of Public Health may be removed for cause by the King County Executive after consultation with the Mayor.

**Table 12-1**

**JOINT VENTURE FINANCIAL DATA  
SEATTLE-KING COUNTY DEPARTMENT OF PUBLIC HEALTH  
(In Thousands)**

<u>Year Ended December 31</u>	<u>2004 Unaudited</u>	<u>2003 Audited</u>
Assets	\$ 33,826	\$ 37,494
Liabilities	20,134	28,547
Fund balance	13,692	8,947
Revenues	150,657	163,953
Expenditures	176,839	181,014
Other Financing Sources (Uses) - Net	16,221	15,727
Net Increase (Decrease) in Fund Balance	(9,961)	(1,334)

Expenditures for Seattle services were \$31.3 million in 2004 and \$39.7 million in 2003. The City of Seattle accounts for its share of the department's expenditures in the General Fund. That support was \$10.1 million in 2004 and \$12.0 million in 2003. Included in that General Fund support was \$4.8 million in 2004 and \$7.0 million in 2003 for emergency health care services to low-income residents.

The Seattle-King County Department of Public Health is accounted for in the King County financial statements, which can be obtained by writing the King County Office of Financial Management, King County Administration Building, Seattle, WA 98104; by calling 206-296-7318; or by accessing the web site <http://www.metrokc.gov/finance/FM/CAFR/cafrhome.aspx>.

## **SEATTLE-KING COUNTY WORKFORCE DEVELOPMENT COUNCIL**

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act (WIA) of 1998. It functions as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to the grantor for disallowed costs. If expenditure of funds is disallowed by the grantor agency, the WDC can recover the funds in the following order: (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle who each will be responsible for one-half of the disallowed amount. As of December 31, 2004, there are no outstanding program eligibility issues that may lead to a City of Seattle liability.

The WDC contracts with the City of Seattle which provides programs related to the WIA Youth In-School Program. For the year 2004 WDC paid \$0.9 million to the City of Seattle.

The WDC issues independent financial statements that may be obtained from its offices at 2003 Western Avenue, Suite 250, Seattle, WA 98121-2161.

## **(13) COMMITMENTS**

### **GENERAL**

#### **Capital Improvement Program**

The City adopted the 2004-2005 Capital Improvement Program (CIP), which functions as a capital financing plan for the years 2004-2009 totaling \$2.6 billion. The endorsed CIP for 2004 was \$422.4 million, consisting of \$249.8 million for City-owned utilities and \$172.6 million for nonutility departments. The utility allocations are: \$115.8 million for City Light, \$76.7 million for Water, \$37.0 million for Drainage and Wastewater, \$10.0 million for Solid Waste, and \$10.3 for Seattle Public Utilities' Technology Projects. Expenditures may vary significantly based upon facility requirements and unforeseen events. A substantial portion of contractual commitments relates to these amounts.

## CITY LIGHT

Power received under long-term purchased power agreements in average annual megawatts (aaMW) is as follows:

Table 13-1

### LONG-TERM PURCHASED POWER (In Average Annual Megawatts)

	2004	2003
Bonneville Block	392.8	390.9
Bonneville Slice	137.8	147.1
Lucky Peak	31.3	33.4
British Columbia - Ross Dam	34.8	36.0
City of Klamath Falls	81.8	74.7
State Line Wind	39.7	24.7
Pend Oreille County Public Utility District	6.7	5.4
Grant County Public Utility District	36.0	35.5
Grand Coulee Project Hydroelectric Authority	28.9	26.9
British Columbia-Boundary Encroachment	1.5	1.6
Exchange Energy	12.4	12.4
Other	0.7	4.6
Total Long-Term Purchased Power	804.4	793.2

## Purchased and Wholesale Power

### *Bonneville Power Administration*

City Light (the Utility) purchases electric energy from the U.S. Department of Energy, Bonneville Power Administration (BPA), under the Block and Slice Power Sales Agreement, a 10-year contract that expires September 30, 2011. The agreement provides a block of power shaped to the Utility's monthly net requirements, defined as the difference between projected month load and firm resources available to serve that load. Additional amounts of power will be purchased and received throughout the term of the contract under the Slice portion of the contract. The terms of the Slice product specify that the Utility will receive a fixed percentage (4.6676 percent) of the actual output of the Federal Columbia River Power System. The cost of Slice power is based on the Utility's same percentage (4.6676 percent) of the expected costs of the system and is subject to true-up adjustments based on actual costs. Amendments to the contract through 2003 provide that Bonneville will pay the Utility for energy savings realized through specified programs.

### *Lucky Peak*

In 1984 the Utility entered into a purchase power agreement with four irrigation districts to acquire 100 percent of the net output of a hydroelectric facility constructed in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the FERC license expires in 2030. The agreement, which expires in 2038, obligates the Utility to pay all ownership and operating costs, including debt service, over the term of the contract whether or not the plant is operating or operable. To properly reflect its rights and obligations under this agreement, the Utility includes as an asset and liability the outstanding principal of the project's debt net of the balance in the project's reserve account.

### *British Columbia-Ross Dam*

In 1984 an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Utility with power equivalent to that which would result by increasing the height of Ross Dam. The agreement was ratified by a treaty between Canada and the United States in the same year. Power delivery began in 1986, and power is to be received for 80 years.

In addition to the direct costs of power under the agreement, the Utility incurred costs of approximately \$8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual \$1.0 million payments. These costs have been deferred and are being amortized to purchased power expense over 35 years.

## *Estimated Future Payments under Purchase Power Contracts*

The Utility's estimated payments under its contract with BPA, the PUD, irrigation districts, power exchange corporation, Lucky Peak Project, and British Columbia – High Ross Agreement, Klamath Falls and with PPMI and Pacificorp for wind energy and net integration and exchange services for the period from 2005 through 2065, undiscounted, are:

**Table 13-2 ESTIMATED FUTURE PAYMENTS UNDER PURCHASE POWER CONTRACTS**  
**(In Thousands)**

<u>Year Ending December 31</u>	<u>Estimated Payments</u>
2005	\$ 279,467
2006	292,037
2007	278,744
2008	276,267
2009	263,837
Thereafter <sup>a</sup>	<u>1,899,845</u>
Total	<u>\$ 3,290,197</u>

<sup>a</sup> Bonneville Block and Slice contract expires October 1, 2011. Bonneville transmission contract expires July 31, 2025. BC Hydro – Ross Dam operations and maintenance costs estimated at \$166,830 per year from 2039 to 2065.

The effects of a proposed Regional Transmission Organization and other changes that could occur to transmission as a result of FERC's proposed standard market design are not reflected in the estimated future payments.

Payments under these long-term contracts totaled \$234.6 and \$251.8 million in 2004 and 2003, respectively. Payments under the transmission agreements amounted to \$30.7 and \$30.0 million in 2004 and 2003, respectively.

## *Skagit and South Fork Tolt Licensing Mitigation*

In 1995 FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both of these licenses, the Utility has taken and will continue to take required mitigating measures. Total Skagit mitigating costs from the effective date until expiration of the federal operating license were estimated at December 31, 2004, to be \$122.3 million, of which \$76.2 million was expended; and estimated costs for South Fork Tolt, were \$4.1 million, and \$1.1 million was expended. Capital improvements, other deferred costs, and operations and maintenance costs are included in the estimates for both licenses.

## *Application Process for New Boundary License*

The Utility's FERC license for the Boundary Project expires on September 20, 2011. The Utility intends to submit an application for a new license by October 2009. A new license may require additional mitigation efforts for endangered species, including water quality standards, the full extent of which is not known at this time. Application process costs are estimated at \$43.3 million; as of December 31, 2004, \$3.9 million was expended and deferred.

## *Project Impact Payments*

Effective November 1999 the Utility committed to pay a total of \$11.6 million and \$7.8 million over ten years ending in 2008 to Pend Oreille County and Whatcom County, respectively, for the impacts on county governments from the operations of the Utility's hydroelectric projects. The payments compensate the counties and certain school districts and town located in these counties for lost revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The combined impact compensation, including an annual inflation factor of 3.1 percent, and retroactive payment totaled \$1.2 million and \$1.1 million to Pend Oreille County in 2004 and 2003, respectively, and \$0.8 million to Whatcom County in each year.

## *Streetlight Litigation*

In November 2003 the Washington Supreme Court ruled that a 1999 ordinance related to inclusion of streetlight costs in the general rate base for Seattle and Tukwila customers was unlawful. As a result of this decision, the Utility resumed billing the City of Seattle for streetlight costs. On May 21, 2004, trial court proceedings resulted in a ruling that the Utility be required to refund the amount collected from ratepayers since December 1999 attributable to streetlight costs. The ruling

also provided that the City of Seattle General Fund will have to repay the Utility for the streetlight costs that would have been billed over the same period.

On October 8, 2004, a partial judgment in the streetlight litigation was entered in Superior Court in King County. The judgment included a remedy stipulation that required the City's General Fund to pay \$23.9 million to the Utility, an amount which represents billings for streetlight services that should have been made to the City from December 1999 through November 2003. The \$23.9 million payment also included compensation to the Utility for "loss of use" of funds, calculated as percentage of the difference between the amount that should have been billed to the City and the amount paid by ratepayers for streetlight services. The City's General Fund will pay the amount due on installment schedule through April 2005. In 2004 the Utility received payments totaling \$6.2 million from the City. An additional \$6.2 million was received in January 2005. The final payment of \$12.9 million is due on April 1, 2005.

The Utility will refund to ratepayers in Seattle and Tukwila the amount of streetlight costs billed to them from January 2000 through November 2003. Gross refunds are estimated to be \$21.5 million, plus \$2.6 million to compensate ratepayers for loss of use of funds. Plaintiff attorney fees totaling \$3.3 million and \$0.7 million in administrative costs related to the refunds will be deducted from the gross refund amount, leaving \$20.0 million to be refunded to ratepayers. Refunds to current customers will be made through credits on their electric utility bills. Currently inactive customers who received one or more billings during the period from January 2000 through November 2003 will receive refund checks on application to the Utility.

The Utility recorded the \$2.4 million difference between the \$23.9 million in payments from the City of Seattle and the \$21.5 million in customer refunds as other operating revenues in 2004.

The partial judgment entered on October 8, 2004, in the streetlight litigation also found that the City had inappropriately allocated to the Utility certain central costs and ordered the City to refund \$1.0 million in such costs, including an allowance for loss of use, to the Utility. Certain features of the City's 1% for Art ordinance, as applied to the Utility, were also found to be illegal. The City has filed an appeal relative to the 1% for Art finding.

## SEATTLE PUBLIC UTILITIES (SPU)

### Water Fund

#### *Cedar River Watershed*

Seattle Public Utilities prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the Seattle Public Utilities and City Light in the Cedar River Watershed while allowing the City to continue to provide high quality drinking water to the region. The Federal government has accepted the HCP. The total cost of implementing the HCP is expected to be \$90 million (in 2002 dollars) over a period of 50 years. Expenses are expected to be funded from a combination of operating revenues and debt.

The Water Fund negotiated an agreement relating to compliance with the Surface Water Treatment Rule on its Cedar River supply system, which requires it to evaluate ozonation and filtration and recommend changes to current treatment. A recommendation for ozonation compatible with filtration was provided to the Washington State Department of Health in November 1995 and approved in January 1996. The ozonation facility, completed in 2004 at a cost of \$113.4 million, was funded with a combination of operating revenue and debt. With its completion, all terms of the compliance agreement have been met.

### Drainage and Wastewater Fund

#### *National Oceanic and Atmospheric Administration (NOAA) Settlement*

In 1991 the City of Seattle entered into a consent decree with the United States, the Muckleshoot Indian Tribe, the Suquamish Indian Tribe, and the State of Washington to make restitution of up to \$12.1 million for alleged damages to the natural resources of Elliott Bay and the Lower Duwamish River by combined sewer overflow and storm drain discharges (the NOAA Settlement). The Elliott Bay Duwamish Restoration Program Panel, of which the City is a member, was formed to direct the project activities to be performed in accordance with the decree.

The decree calls for payment of \$6.0 million for sediment remediation, \$2.5 million for habitat development, and \$0.1 million for reimbursement of costs for natural resources damage assessment. The Panel may allow for payment through in-kind services as approved. Additionally, up to \$2.5 million of real property and up to \$1.0 million of in-kind services for source control will be provided. SPU is charged with the responsibility of managing the City's obligation, which includes contributions from other departments.

Prior to December 31, 2003, the Fund settled a \$9.5 million liability through cash payments and in-kind services. An additional \$2.2 million of the liability was settled by the Parks Department on behalf of the Fund through a donation of real property. The remaining liability as of December 31, 2003, was \$144,000. During 2004 the Utility spent \$0.7 million, thus satisfying the obligation.

## ***Duwamish Site***

Separate from the NOAA settlement, the US Environmental Protection Agency (EPA) has indicated that it will require the clean-up and remediation of certain Duwamish sites under its "Superfund" authority. No specific requirements have been made from EPA at the time of this footnote. In order to manage the liability, the City is working with EPA and other potentially liable parties (PLP) on a Remedial Investigation (RI) and Feasibility Study (FS) to evaluate the risk to human health and the environment, identify the possible early action clean-up sites, and generally evaluate the feasibility of clean-up options for use in the ultimate remedial actions that EPA may require. Prior to the issuance of an EPA ruling on Duwamish River-wide liability, SPU, together with other PLPs, has voluntarily agreed to initiate clean-up of certain early action sites identified during the RI. The EPA is expected to provide a ruling on river-wide liability in 2008. At December 31, 2004, the reserve for estimated costs related to the Duwamish site totaled \$6.4 million, an increase of \$3.0 million over 2003. This reserve includes SPU's share of early action site study and clean-up expense at two sites between 2005 and 2008.

## ***Gasworks Park Sediment Site***

In April 2002 the Department of Ecology (DOE) named the City as a PLP at the Gas Works Park sediment site at North Lake Union. The City, with SPU as lead, is working with DOE and other PLPs to undertake a remedial investigation and feasibility study to investigate contamination; evaluate the risk to human health and environment; and evaluate site clean-up options. As of December 31, 2004, the reserve for estimated costs related to this site totaled \$1.2 million, an increase of \$0.3 over 2003. This reserve includes technical costs for the completion of the RI and FS and associated legal costs during the 2005-2006 period.

## ***Wastewater Disposal Agreement***

SPU has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division expiring in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. The 2004 and 2003 payments to the Division were approximately \$83.1 million and \$79.2 million, respectively.

## **Solid Waste Fund**

### ***Contractual Obligations***

The City contracts with private companies for the collection of residential garbage, yard waste, and recycling. The contracts include certain additional costs related to bulky items and backyard service. New residential collection contracts with two private companies were implemented in April 2000. The contracts end March 31, 2007, but the City retains the option to extend the contracts until March 31, 2008, or March 31, 2009. Total payments during 2004 and 2003 were approximately \$23.1 million and \$21.6 million, respectively.

In 1990 the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of nonrecyclable City waste, including the City's commercial waste collected by two state-franchised haulers. In 1996 and again in 2001 the City renegotiated this contract to extend the first date at which it can choose to unilaterally terminate the contract from March 31, 2000, to March 31, 2009. In exchange, WWS agreed to change the contract prices from \$44.87 per ton in 1996 to \$41.57 per ton beginning April 15, 1997, and \$43.73 per ton beginning April 2002. In addition, WWS agreed to reduce the price escalator in the contract from 90 percent of the Seattle-Tacoma CPI to 80 percent, effective April 15, 1998, and to 70 percent of CPI beginning April 1, 2003. WWS also agreed to further reduce the CPI-designated tonnage rate by \$1.50 per ton for rates effective April 1, 2003, 2005, and 2007. The Utility paid WWS \$19.9 million in 2004 and \$17.7 million in 2003 under this contract.

For several years the City negotiated with the state-franchised haulers that have collected commercial waste in the City to bring them under contract with the City. The negotiations were successful and as of April 1, 2001, commercial garbage is collected under these new contracts. Payments under these contracts totaled approximately \$15.4 million and \$15.6 million in 2004 and 2003, respectively. The contracts will expire on March 31, 2008, but the City retains an option to extend them to March 31, 2009, or March 31, 2010. As part of these commercial collection contracts the City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc., and changes to the disposal contract. The first opt-out date on the disposal contract was pushed out from March 31, 2006, to March 31, 2009, for price reductions of \$1.50

per ton in 2003, an additional \$1.50 per ton in 2005, and a final \$1.50 per ton in 2007. Under this contract the Utility paid \$1.3 million and \$0.9 million in 2004 and 2003, respectively.

### ***Landfill Closure and Postclosure Care***

At December 31, 2004 and 2003, accrued landfill and postclosure costs consist primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as deferred costs in the accompanying financial statements. These costs are being amortized as they are recovered from ratepayers. Actual costs for closure and postclosure care may be higher due to inflation, changes in technology, and changes in regulations.

In prior years the Fund delivered its refuse to two leased disposal sites: Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste at the Midway site in 1983 and at the Kent-Highlands site in 1986.

Subsequent to their closings, both Kent-Highlands and Midway landfills were declared Superfund sites by the federal government. In the same time period nearby landowners, residents, and the federal and state governments made various claims of damages related to these landfills and sought various forms of relief. These claims have been settled, and the City does not anticipate further actions related to Kent-Highlands and Midway landfills. Any future changes in the accrued landfill liability will be reflected in Solid Waste Fund rates.

In 1996 the City filed suit against various parties that disposed of waste at the Kent-Highlands landfill. In its suit the City asserted that these parties (according to the Comprehensive Environmental Response, Compensation and Liability Act) were liable for a portion of the cost of closing the Kent-Highlands landfill. The City completed settlement with the defendants in this suit in December 1997 and has recovered approximately \$2.2 million. The City settled a similar suit relating to the Midway landfill in 1994 and has since recovered \$6.4 million. The City does not anticipate any further legal actions relating to either landfill.

## **(14) CONTINGENCIES**

The City is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors or omissions, law enforcement actions, contractual actions, natural disasters, failure to supply utilities, environmental regulations, and other third-party liabilities. The City also bears the risk of loss for job-related illnesses and injuries to employees. The City has been self-insured for most of its general liability risks prior to January 1, 1999, for workers' compensation since 1972, and for employees' health care benefits starting in 2000.

Since January 1, 1999, the City obtained excess general liability insurance coverage for occurrences on or after said date which covers losses over \$2.5 million per occurrence self-insured retention and includes a \$25.0 million limit per occurrence and in the aggregate. Starting February 1, 2002, the City's excess general liability insurance covers losses over \$5.0 million per occurrence self-insured retention, with a \$25.0 million limit per occurrence and in the aggregate.

In 2004 the City purchased a new excess liability insurance policy to address general, automobile, professional, public official and other exposures. The policy has limits of \$25 million above a \$5 million self-insured retention for each occurrence. The City also purchased an all-risk property insurance policy that provides \$500 million in limits above a \$500,000 deductible (for most buildings) with \$100 million in earthquake and flood limits and \$100 million in terrorism limits, with boiler and machinery, builders risk, and electronic data processing coverage endorsements. Hydroelectric and other utility producing/processing projects owned by the City are not covered by the property policy. Insurance is also in place for excess workers compensation, fiduciary and crime liability, contractors' equipment, transportation, inland marine, fine arts, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, notary public, pension exposures, and specific projects and activities as necessary.

The City did not purchase any annuity contracts in 2004 to resolve litigation but some were purchased in 2003 to fund certain settlements. No annuity contracts reverted back to the City in 2004 or 2003. No structured settlements were entered into by the City in 2004. No settlements were received from an insurer in 2004 or 2003; and no settlements made in 2004, 2003, or 2002 were in excess of insurance coverage.

Claims liabilities are based on the estimated ultimate cost of settling claims, which include case reserve estimates and incurred but not reported (IBNR) claims. Liabilities for lawsuits and other claims are assessed and projected annually using historical claims, lawsuit data, and current reserves. The Personnel Department estimates case reserves for workers' compensation using statistical techniques and historical experience. Ultimate cost of settling claims was estimated for



lawsuits, workers' compensation, and other claims based on independent actuarial studies performed as of year-end 2002, and as of year-end 2004 for health care. IBNR undiscounted totaled \$46.0 million and \$52.9 million at December 31, 2004 and 2003, respectively.

Estimated claims expenditures are budgeted by the individual governmental and proprietary funds. Actual workers' compensation claims are processed by the General Fund and reimbursed by the funds that incurred them. Operating funds pay health care premiums to the General Fund, and the latter pays for all actual health care costs. The General Fund pays for lawsuits, claims, and related expenses and then receives reimbursements from City Light, Water, Drainage and Wastewater, Solid Waste, Engineering Services, and the retirement funds for payments and expenses incurred by these funds.

Claims liabilities include claim adjustment expenditures if specific and incremental to a claim. Recoveries from unsettled claims, such as salvage or subrogation, and on settled claims are deposited in the General Fund and do not affect reserves for general government. Workers' compensation subrogation recoveries in 2004 amounted to \$0.3 million, about the same level as in 2003. All workers' compensation recoveries are deposited into the General Fund. Lawsuit and other claim recoveries of payments reimbursed by the utilities are deposited into the paying utility fund and do not affect the utility reserves.

Claim liabilities recorded in the financial statements are discounted at 2.338 percent for 2004 and 3.161 percent for 2003, the City's average annual rates of return on investments. The total discounted liability at December 31, 2004, was \$102.0 million, consisting of \$69.9 million for general liability, \$8.4 million for health care, and \$23.6 million for workers' compensation.

## RISK MANAGEMENT

Table 14-1

### RECONCILIATION OF CHANGES IN AGGREGATE LIABILITIES FOR CLAIMS (In Thousands)

	General Liability		Health Care		Workers' Compensation		Total City	
	2004	2003	2004	2003	2004	2003	2004	2003
<b>UNDISCOUNTED</b>								
Balance - Beginning of Fiscal Year	\$ 92,479	\$ 64,204	\$ 8,210	\$ 3,284	\$ 24,804	\$ 30,500	\$ 125,493	\$ 97,988
Less Payments and Expenses								
During the Year	(9,135)	(10,594)	(80,979)	(73,739)	(10,987)	(8,962)	(101,101)	(93,295)
Plus Claims and Changes in Estimates	(7,035)	38,869	81,390	78,665	11,804	3,266	86,159	120,800
Balance - End of Fiscal Year	<u>\$ 76,309</u>	<u>\$ 92,479</u>	<u>\$ 8,621</u>	<u>\$ 8,210</u>	<u>\$ 25,621</u>	<u>\$ 24,804</u>	<u>\$ 110,551</u>	<u>\$ 125,493</u>
<b>UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF</b>								
Governmental Activities	\$ 57,472	\$ 67,409	\$ 8,621	\$ 8,210	\$ 17,517	\$ 18,236	\$ 83,610	\$ 93,855
Business-Type Activities	18,834	25,068	-	-	8,103	6,568	26,937	31,636
Fiduciary Activities	2	2	-	-	1	-	3	2
Balance - End of Fiscal Year	<u>\$ 76,308</u>	<u>\$ 92,479</u>	<u>\$ 8,621</u>	<u>\$ 8,210</u>	<u>\$ 25,621</u>	<u>\$ 24,804</u>	<u>\$ 110,550</u>	<u>\$ 125,493</u>
<b>DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF</b>								
Governmental Activities	\$ 52,629	\$ 61,952	\$ 8,424	\$ 7,958	\$ 16,158	\$ 16,416	\$ 77,211	\$ 86,326
Business-Type Activities	17,283	23,393	-	-	7,474	5,913	24,757	29,306
Fiduciary Activities	1	2	-	-	1	-	2	2
Balance - End of Fiscal Year	<u>\$ 69,913</u>	<u>\$ 85,347</u>	<u>\$ 8,424</u>	<u>\$ 7,958</u>	<u>\$ 23,633</u>	<u>\$ 22,329</u>	<u>\$ 101,970</u>	<u>\$ 115,634</u>

## ENVIRONMENTAL

The following sites are in various stages of the federal government's Environmental Protection Agency (EPA) Superfund cleanup process or the parallel process under the state's Model Toxics Control Act (MTCA). In general, the total costs of

cleanup and of claims for payment of government response costs are difficult to estimate accurately, as is the City's ultimate share of responsibility.

- Harbor Island (upland site). Remediation of this Superfund site at the mouth of the Duwamish River is largely completed, but still may result in City liability. Seattle City Light (City Light) is alleged to have scrapped a relatively small number of transformers at the Seattle Iron & Metal facility on the island. No complaint has been filed against the City but it is possible that the City could be sued for contribution. The risk of litigation may have been reduced by the passage of time, and ultimate City liability is indeterminate.
- Harbor Island East Waterway (aquatic sediments). The EPA has identified several separate "operable units" of marine sediment contamination at the Harbor Island Superfund site. The Port of Seattle is in the process of dredging contaminated sediments from one of these operable units. The Port has sent notice that it considers the City a potentially responsible party (PRP) for some of the contamination. The City's alleged liability stems from discharges through the storm drainage system of Seattle Public Utilities (SPU). Although not considered likely, a complaint may be filed. Ultimate City liability is indeterminate.
- Harbor Island West Waterway (aquatic sediments). The EPA has informally notified the City that it considers the City responsible for discharges into the West Waterway from a City (SPU) storm drain. Ultimate City liability is indeterminate.
- Lower Duwamish Waterway Superfund Site. The Lower Duwamish Waterway was listed as a federal Superfund site in 2001 for contaminated sediments. In 2000 the City and three other parties entered into an administrative order on consent with the EPA and the Department of Ecology (Ecology) to conduct a remedial investigation/feasibility study regarding sediments in the Waterway. At some locations City Light's property ownership or use or releases from electrical equipment allegedly make City Light responsible for some of the sediment contamination. In particular, primarily due to City Light activities, the EPA named the City a PRP for cleanup of two areas within the Lower Duwamish Waterway Superfund site: Malarkey/T117 and Slip 4. The City has entered into an agreement with King County, which is also a PRP for Slip 4, to perform further investigation of contamination in the slip that is being required by the EPA. The City and King County are sharing the costs. Based on current information the total cost for cleanup of Slip 4 is estimated to be no more than \$8.0 million, which would be shared by the PRPs. The City is working toward a similar arrangement with the Port of Seattle regarding further investigation and cleanup of the Malarkey/T117 site. Based on current information, the total cost for cleanup of the Malarkey/T117 site is estimated to be no more than \$5.0 million, which would be shared by the PRPs. The City is likely to sign an administrative order on consent to participate in the removal of contaminated sediments at one or both of these locations. In addition, the Boeing Company alleges that City Light is responsible for contamination in sediments adjacent to Boeing Plant 2. Investigation of these allegations is ongoing. City Light's ultimate liability at these locations, if any, is indeterminate.
- Dallas Street. During source control investigations conducted by SPU's Drainage and Wastewater Utility in 2004 as part of its responsibilities under its National Pollutant Discharge Elimination System (NPDES) permit for stormwater, PCB contamination was found in street right-of-ways and some adjacent private properties. The contamination is near the Malarkey/T117 early action area and may have originated from historic operations at the Malarkey/T117 location. With Ecology's concurrence, SPU performed an emergency removal action to reduce public exposure to the contamination. SPU has developed a plan for further removal of contamination and installation of a drainage system that will eliminate the possibility of contaminated stormwater reaching the Duwamish. SPU anticipates seeking grants to cover some of the costs and also seeking contributions from other PRPs associated with the Malarkey/T117 early action area. The total cost of investigating and addressing the contamination is not expected to exceed \$5.0 million.
- Lower Duwamish Waterway Sediments. As noted above, the Lower Duwamish Waterway was listed as a federal Superfund site in 2001 for contaminated sediments. In 2000 the City and three other parties entered into an administrative order on consent with the EPA and Ecology to conduct a remedial investigation/feasibility study regarding sediments. As a result of discharges from City storm drains and combined sewers, SPU is alleged to be a PRP at several of the areas within the Lower Duwamish Waterway Superfund site, potentially including: Slip 4, Norfolk, Trotsky, and Diagonal/Duwamish. The EPA has not yet proposed an administrative order on consent for the Norfolk and Trotsky Early Action Areas, and there are no current estimates for the cleanup costs at those locations. Accordingly, SPU's ultimate liability, if any, for those sites is indeterminate. Cleanup of part of the Diagonal/Duwamish location was completed under a 1991 consent decree, using funds appropriated in prior years. There is a possibility that SPU will incur further financial liability for that location due to remaining contamination.
- Gas Works Park Sediments. In 2002 Ecology issued a Potentially Liable Party (PLP) notice to the Parks Department with regard to sediment contamination in the waters adjacent to Gas Works Park. The City is allegedly a PLP for the contamination in the lacustrine sediment adjacent to Gas Works Park and the Harbor Patrol properties in the North Lake Union area. City liability is premised upon its ownership of upland properties where historic activities allegedly generated contaminants now found in the lacustrine sediments, and as a result of discharges from storm drains and combined sewers. The City as a whole, with SPU as the lead, is working with Ecology on an agreed order to investigate the sediment contamination at the site. The City's liability, if any, is indeterminate.

- **Gas Works Park.** In 1999 the City and Puget Sound Energy (PSE) entered into a consent decree with Ecology to perform a cleanup of the Park under MTCA. In 2000 the City and PSE reached a final settlement to allocate cleanup costs at the Park. City liability, if any, for contamination of the sediments adjacent to the Park was not resolved in this settlement. As noted above, Ecology issued the City a PLP notice for sediment contamination in the waters adjacent to Gas Works Park in 2002. The City's liability, if any, is indeterminate.
- **Puget Park.** The Parks Department owns this site, which was contaminated with cement kiln dust. The City has already spent \$0.4 million on voluntary remedial measures in cooperation with other parties. Additional voluntary remedial measures are underway. The EPA and Ecology are concerned that contaminants still could be released from the site into the Lower Duwamish Waterway. Ultimate liability is undetermined.
- **Water Tank Sites and Surrounding Properties.** SPU is voluntarily investigating and/or performing environmental remediation, including soil remediation, at some of the approximately 16 locations of aboveground water storage tanks. SPU's past practices of removing lead-based paint materials and other building materials and using blasting materials, are the alleged source of metals (for example, lead and arsenic) on such sites. Ecology has received reports of contamination at some sites but has taken no enforcement action. In addition, SPU anticipates claims from some neighboring private property owners for property damage and other damages. Ultimate City liability relating to City property remediation and to possible private claimants is indeterminate. The project is expected to continue for several years.
- **Kent Highlands Landfill.** The Kent Highlands landfill is a closed Seattle municipal landfill that was designated as a federal Superfund site in 1990. The State Department of Ecology administers the site under MTCA pursuant to an agreement with the EPA. Extensive remedial actions were undertaken during the 1990s pursuant to a consent order with Ecology originally signed in 1987 and last amended in 1996. The site is still on the Superfund list but was designated "construction complete" in 1995. In September of 2003 Ecology issued a final periodic review for the landfill, which concluded that additional remedial investigation and possibly remedial actions are necessary at the landfill. The City disputes many of the conclusions in the report. Liability at this time is indeterminate.
- **Montlake Landfill.** SPU faces potential liability due to a King County project which will reroute storm water that currently goes to the West Point Treatment Plant and discharge it into the University Slough, which crosses property owned by the University where the former Montlake landfill was located. The landfill operated from about 1949 to 1964. The City's potential liability is due to its current operation of part of the storm drain system, its anticipated ownership of the new pipes once they are installed, and its former contribution of waste to the landfill. The University of Washington has periodically expressed concerns regarding future liability for releases from the landfill and now is concerned that increasing the flow of water into the Slough may increase the risk of contaminants being released from the landfill. The City and the University are trying to reach a mutually agreeable resolution. The amount of City liability, if any, is undetermined.
- **South Park Landfill.** King County performed an environmental investigation, focusing on soil, ground water and subsurface gas, in and around open space land the County owns in the South Park area of Seattle. Informally, the County has stated that it expects the City to share the costs of further investigation and, if necessary, cleanup. It has been alleged that between 1958 and 1968 the City used a portion of the property as a waste disposal site. No litigation has commenced and the City's liability, if any, is unknown.
- **Other Potentially Contaminated Sites.** There may be other parcels of land that may be designated Superfund sites or be designated under MTCA. Demands with respect to such sites may be made on the City by regulatory entities, or the City may choose to clean up these or other sites voluntarily, once they are identified. The City may also be interested in pursuing third parties for contribution.

## OTHER MATTERS

- **Endangered Species.** Several fish species that inhabit waters where hydroelectric projects are owned by the City Light Department or where the Department purchases power have been listed under the Endangered Species Act (ESA) as threatened or endangered. On the Columbia River system, the National Oceanic and Atmospheric Administration Fisheries has developed a broad species recovery plan for listed salmon and steelhead, including recommendations for upstream and downstream fish passage requirements. As a result, the Department's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced. In Puget Sound both bull trout and Chinook salmon have been listed as threatened, and a draft recovery plan and proposed critical habitat for Puget Sound bull trout was issued by the U.S. Fish and Wildlife Service in July 2004. Bull trout are present in the waters of Skagit, Tolt, and Cedar River projects, and Chinook salmon occur downstream. While it is unknown how other listings will affect the Department's hydroelectric projects and operations, the Department is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and salmon groups that will assist in the recovery of bull trout and Chinook salmon on the Skagit and Tolt. On the Cedar the Department's activities are covered by a Habitat Conservation Plan that

authorizes operations with regard to all listed species. Hydroelectric projects must also satisfy the requirements of the Clean Water Act in order to obtain a Federal Energy Regulatory Commission license.

- **Oregon Tax Claim.** In 2001 the Oregon Department of Revenue assessed the City Light Department, along with another northwest municipal utility, an ad valorem property tax for each utility's respective interest in the capacity ownership agreements with the Bonneville Power Administration for the Pacific Northwest Third AC Intertie transmission line. The assessment was for tax year 2001 with a retroactive "omitted property" assessment for years 1997 through 2000. In January 2004 the Court issued a ruling in favor of the cities for the "omitted property" claims, eliminating the assessment prior to 2001. In June 2004, as a result of changes to the Oregon Tax Code, a new "omitted assessment" was made for years 1999 and 2000. Trial is expected in 2005 for the new assessment matter. Any decision by the Oregon Tax Court in this matter is likely to be appealed to the Oregon Supreme Court and, because of federal constitutional issues involved in this case, an appeal to the U.S. Supreme Court is also possible. Final resolution of the case in the near future is unlikely. Estimated exposure is approximately \$0.5 million per year, for the years 2001 through 2004.
- **Streetlight Litigation.** Three former City employees and one community representative filed a class action lawsuit seeking refund of streetlight charges and other charges included in electric rates that are alleged to be violations of the "State Accountancy Act." The litigation also challenged the City's charge of certain expenses to the Light Fund rather than the General Subfund. The Superior Court upheld many of the challenged charges to the Light Fund for assistance provided to City Light, while ruling other charges inappropriate. In 2003 the City recorded a liability of \$23.9 million in the government-wide financial statements as a result of the court ruling but has filed an appeal relative to the 1% for Art Funding.
- **Capitol Hill Branch Library.** This project involves the construction of the new Capitol Hill Branch Library. In November 2003 the contractor filed a claim in the amount of \$0.7 million for alleged contract changes, delays, and acceleration. The City has a claim against the contractor for liquidated damages of \$0.1 million due to untimely completion. The City conducted an audit of the claim and an independent schedule analysis. Trial is set for August 1, 2005. The likelihood of a material recovery or a material adverse outcome cannot be predicted.
- **Cedar River Habitat Conservation Plan.** In December 2003, the Muckleshoot Indian Tribe appealed the grant by the United States National Marine Fisheries Service (NMFS) of an incidental take permit to the City for City activities in the Cedar River watershed. The City diverts water from the Cedar River to supply the Seattle metropolitan area and also has a small hydroelectric facility on the river. Possible outcomes of the appeal include: requiring NMFS' successor agency to perform a new environmental assessment funded by SPU; modifying or revoking the permit, which could restrict the City's water use or expose the City to claims under the Endangered Species Act; and/or modifying the Habitat Conservation Plan. The likelihood and cost of an adverse outcome cannot be estimated at this time.
- **Temporary Employees.** The plaintiff class, comprised of current and former City temporary employees who worked over 916 hours in one year, alleges the City failed to follow and implement the Scannell consent decree in regularly reevaluating whether those temporary positions should be made permanent. They also allege the City has mislabeled temporary employees and consequently denied them benefits and pay they would be entitled to as regular employees under City ordinance and state law. The matter is set for trial in 2005 and may be delayed because the Court of Appeals has accepted discretionary review of one issue. Settlement negotiations are ongoing. Ultimate City liability, if any, is indeterminate.
- **World Trade Organization (WTO) Conference.** The WTO Conference was held in Seattle in 1999. This event spawned 407 claims and 26 lawsuits against the City. All but two lawsuits have been resolved for an aggregate nonmaterial amount. The two remaining lawsuits were consolidated on an issue common to both cases: plaintiff's challenge to the declaration of an emergency and the emergency order creating a limited access area. The Ninth Circuit very recently affirmed the District Court's dismissal of the plaintiffs' facial challenges to the relevant orders but reversed and remanded for trial the "as applied" claims regarding some police enforcement activity. Plaintiffs have petitioned for rehearing en banc. In a separate ruling, the Ninth Circuit Court also reversed the trial court's denial of class certification in one of the cases and remanded for further proceedings on that issue. The likelihood of material adverse outcome in this matter cannot be predicted.
- **North Cascade Environmental Learning Center Project.** This project is currently under construction. The contractor, RAS Construction, has filed a claim in excess of \$3.0 million. Based on an analysis of the claim, the City has several defenses to the claim and a right to a substantial amount of liquidated damages due to the failure of the contractor to complete the project in a timely fashion. However, this matter has been substantially complicated by the fact that the project had to be suspended in the fall of 2003 due to a landslide that blocked access to the site. The likelihood of a material adverse outcome in this matter cannot be predicted.
- **Olympic Sculpture Garden.** The Seattle Art Museum plans to develop a site (to be called the Olympic Sculpture Garden) adjacent to Elliott Bay. The site was the historic location of a bulk fuel transfer facility operated by Unocal. Unocal has performed remedial activities at the site. The City assumed specific liabilities when the site was sold to the Museum Development Authority, including liability for remaining contamination in the rights-of-way and tidelands. In

1999 the City's probable cost to address remaining contamination was estimated to be \$0.4 million. Current information indicates that the City's costs may exceed that estimate by an unknown amount.

- **South Lake Union Combined Sewer Overflow (CSO) Pipeline Project.** This joint project of the City and King County is currently under construction. In the spring of 2003 the contractor, Frank Coluccio Construction Company (FCCC), encountered significant problems in excavating an access shaft that was being dug for one of the tunneling portions of the project. FCCC has given notice of a differing site condition and a claim in excess of \$0.5 million is expected to be filed. The likelihood of a material recovery or a material adverse outcome in this matter cannot be predicted.
- **Tribal Fish Damage Claims.** The Muckleshoot Indian Tribe and possibly other tribes may have a claim against SPU for damage to fish populations allegedly caused by installation in 1900 of a water diversion dam on the Cedar River. In 1982 a consultant for the United States Bureau of Indian Affairs estimated the value of such a claim at \$74.8 million. The Muckleshoot Indian Tribe has periodically raised the issue of a fish damage claim in meetings with City staff but has not filed a claim. Other tribes have pending claims against other municipalities and utilities for as much as \$1.0 billion. The legal and factual basis for a tribal fish damage claim is debatable and the City's ultimate liability, if any, cannot be estimated at this time.
- **Parking Citations.** The plaintiff makes individual and class allegations that the Seattle Police Department has improperly issued parking citations and that Seattle Municipal Court has improperly processed parking citations. Discovery is underway, and the likelihood of a material adverse cannot be predicted.
- **Impounding of Vehicles.** A class action was filed in June 2003 regarding legality of the City policy and practice of nondiscretionary impounding of vehicles of persons driving with suspended licenses. The matter is in discovery. It is impossible to predict whether a material adverse outcome will occur.

There may be other litigation or claims involving alleged substantial sums of money owing; however, the prospects of adverse material outcomes therein are remote. Other than the aforementioned cases and claims liabilities recorded in the financial statements, there were no outstanding material judgments against the City.

## US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) SECTION 108 LOAN PROGRAM

The City of Seattle participates in the HUD Section 108 loan program. In the Section 108 program HUD obtains funds from private investors at a very low cost (i.e., low interest rate). Low-cost funds are available because HUD guarantees repayment to the private investors. HUD, in turn, provides the low-cost funds to jurisdictions nationwide including the City of Seattle. The City re-lends the funds to private borrowers. HUD deposits the funds directly with the City's loan servicing agent JP Morgan Chase. JP Morgan Chase disburses funds on behalf of the City to the private borrowers.

The Brownsfields Economic Development Initiative Grant (BEDI) program is a federal grant that is directly linked to the Section 108 loan program. The City uses BEDI grant funds as a loan loss reserve and interest subsidy on Section 108 loans. The U.S. Treasury deposits the grant funds with the City. The City then disburses the grant funds to its loan servicing agent JP Morgan Chase.

Pursuant to RCW 35.21.735 the City is expressly authorized to participate in the Section 108 loan program. The state statute and the City's contracts/agreements with HUD clarify that the City never pledges its full faith and credit. Future block grant funds are pledged to HUD in the event of borrower default. Each loan is secured by a deed of trust and/or bank-issued letter of credit that provides the City with security in the event of borrower default. Additionally, the BEDI grant funds may be used by the City to protect against loan default.

Following are the outstanding HUD Section 108 loans:

### *Pine Street Development*

In 1996 Pine Street Development received a loan of \$24,200,000 with a maturity date of August 1, 2015. This is a 20-year loan with interest-only payments due until 2005. The outstanding amount at December 31, 2004, was \$24,200,000.

### *Promenade 23 Associates*

In 1996 Promenade 23 Associates received a loan of \$2,400,000 with a maturity date of August 1, 2015. The outstanding amount at December 31, 2004, was \$1,675,000.

### ***Lewiston Hotel***

In 2001 Lewiston Hotel received a loan of \$1,000,000 with a maturity date of August 1, 2020. The outstanding amount at December 31, 2004, was \$955,000.

### ***211 First Ave Building, LP***

In 2002, 211 First Ave Building, LP received a loan of \$1,592,000 with a maturity date of August 1, 2022. This is a 20-year loan with interest-only payments due until 2005. The outstanding amount at December 31, 2004, was \$1,592,000. BEDI grant funds in the amount of \$183,000 are being held as a loan loss reserve.

### ***Buttnick Building, LP***

In 2002 Buttnick Building, LP received a loan of \$3,616,000 with a maturity date of August 1, 2022. This is a 20-year loan with interest-only payments due until 2005. The outstanding amount at December 31, 2004, was \$3,616,000. BEDI grant funds in the amount of \$416,000 are being held as a loan loss reserve.

### ***Triad City Loan LLC***

In 2002 Triad City Loan LLC received a loan of \$2,808,000 with a maturity date of August 1, 2022. This is a 20-year loan with interest-only payments due until 2005. The outstanding amount at December 31, 2004, was \$2,808,000. BEDI grant funds in the amount of \$324,000 are being held as a loan loss reserve.

### ***Compass Center Housing Development***

In 2003 Compass Center Housing Development received a loan of \$1,300,000 with a maturity date of August 1, 2022. This is a 19-year loan. The Borrower used \$300,000 in CDBG Equity Fund to reduce the principal. The outstanding amount at December 31, 2004, was \$970,000. BEDI grant funds in the amount of \$148,000 are being held as a loan loss reserve.

### ***Cadillac Hotel (Historic Seattle PDA)***

In 2004 Cadillac Hotel received a loan of \$2,040,000 with a maturity date of August 1, 2022. This is an 18-year loan with interest only payments due until 2006. The outstanding amount at December 31, 2004, was \$2,040,000. BEDI grant funds in the amount of \$232,000 are being held as a loan loss reserve.

## **GUARANTEES OF THE INDEBTEDNESS OF OTHERS**

The City has contingent liability for the following bonds issued by public development authorities chartered by the City which are not component units of the City:

### ***Pike Place Market Preservation and Development Authority***

Special obligation deferred interest refunding bonds issued on March 7, 1991, in the amount of \$1,376,671, of which \$1,097,886 was outstanding at December 31, 2004. The bonds will be fully retired by November 1, 2011.

Special obligation refunding bonds issued November 1, 1996, in the amount of \$6,210,000 to refund Series 1991A. The outstanding amount at December 31, 2004, was \$5,515,000. The bonds will be fully retired by December 1, 2021.

Special obligation refunding bonds issued on March 28, 2002, in the amount of \$5,925,000, \$5,480,000 of which was outstanding on December 31, 2004. The bonds will be fully retired on November 1, 2017.

### ***Seattle Chinatown-International District Preservation and Development Authority***

Special obligation refunding bonds issued on September 15, 1996, in the amount of \$9,000,000. The outstanding amount at December 31, 2004, was \$7,950,000. The bonds will be fully retired by August 1, 2026.

Special obligation bonds issued on December 12, 2002, in the amount of \$10,490,000, all of which was outstanding on December 31, 2004. The bonds will be fully retired by October 1, 2032.

## *Seattle Indian Services Commission*

Special obligation refunding bonds issued on March 28, 2002, in the amount of \$3,710,000, \$3,625,000 of which was outstanding on December 31, 2004. The bonds will be fully retired on November 1, 2017.

Special obligation revenue refunding bonds issued on November 1, 2004, in the amount of \$5,210,000, all of which was outstanding on December 31, 2004. The bonds will be fully retired by November 1, 2024.

## **(15) RECLASSIFICATIONS, RESTATEMENTS, PRIOR-PERIOD ADJUSTMENTS, AND CHANGES IN ACCOUNTING PRINCIPLES**

In the government-wide financial statements, under governmental activities, prior-period adjustments were made as follows: a) Assets were increased by \$74.5 million for the actuarially determined negative net pension obligation with a corresponding increase to unrestricted net assets; b) Capital assets were increased by \$60.4 million to add the portion of the construction costs of the Benaroya Concert Hall that were funded from donations, with a corresponding increase in net assets invested in capital assets, and an increase in depreciation expense of \$1.3 million; c) Construction work in progress was decreased by \$10.4 million and general government expenses increased by \$10.4 million; and d) A lease previously reported as an operating lease was changed to a capital lease, resulting in a reduction of net assets by \$75 thousand.

Reclassifications were made as follows: a) Streetlight costs of \$21.2 million were changed from a general government cost to a transportation cost; b) The amortization of a refunding loss of \$3.1 million was moved from a general government cost to interest on long-term debt; and c) Costs of \$2.9 million were moved from general government to public safety.

In the governmental fund financial statements the following changes were made: a) The General Fund contribution of \$14.9 million to the Police Pension Fund was reclassified from a transfer out to a general government expenditure; b) An error in recording several housing grants as pass-through grants was corrected resulting in an increase of \$1.0 million in both economic environment expenditures and in grant revenues; c) A lease originally reported as an operating lease was reclassified as capital lease, resulting in an increase in culture and recreation expenditures and interest on debt service; and d) A \$20.0 million loan to the monorail project was reclassified from other financing sources and uses to a general government expenditure.

In the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities, reconciling items which were previously combined and presented as a group are now presented in greater detail as separate line items.

Other minor reclassifications were made to prior year balances to provide a presentation consistent with the current year.

## **(16) SUBSEQUENT EVENTS**

On March 23, 2005, pursuant to City Ordinances 119020 (1998), 121651, and 121663, the City issued \$129.5 million in Limited Tax General Obligation (LTGO) and Refunding Bonds, 2005 Series. \$58.1 million of the bond issue provides funding for major improvement projects on the Seattle Aquarium at Pier 59, Mercer Corridor, SR519 and Bridgeway streets, north and south approaches to the Fremont Bridge, and the Central Library garage; for design and permitting costs related to the Alaskan Viaduct/Seawall repair; for acquisition and installation of parking pay stations; and for a portion of the City government's payment to City Light for street lighting costs from 2000 through 2004, as ruled by the King County Superior Court. The remaining \$71.4 million of the bond issue refunded \$9.7 million, \$10.5 million, and \$49.9 million of the 1995, 1997A, and 1999B Series of Various Purpose LTGO Bonds, whose call dates are July 1, 2006, August 1, 2007, and December 1, 2009, respectively. The proceeds on the refunding portion of the bond issue were placed in an irrevocable trust for the purchase of federal, state, and local government securities to provide for future debt service including the amounts to be called on the refunded bonds.

Ordinance 121779 passed in April 2005 extended the maturity date of the City's Solid Waste System Revenue Bond Anticipation Note, 2003, Nonrevolving Line of Credit from July 1, 2005, to December 31, 2006. The line of credit has a maximum amount of \$21.3 million and as of December 31, 2004, the Utility has made three draws for a total of \$7.976 million, leaving \$13.324 million available on the line of credit. Extension of the maturity date was necessary to support the Utility's revised capital improvement program spending plan.

A class action lawsuit was filed on behalf of city employees to whom the City purportedly failed to pay regular wages and overtime according to the time prescribed by law. It is unknown at this time whether the City's exposure is potentially material.

A lawsuit was filed seeking to require the General Fund to cover the costs for water provided to hydrants and to refund Water Utility customers for the water costs incurred prior to January 1, 2005. Additionally, the Water Department expenses for the 1% for Art program are being challenged.

In 2005 the plaintiffs in the streetlight litigation filed a motion for permission to file a late counterclaim for declaratory judgment to invalidate the franchise agreements by which City Light provides electrical power for residential and municipal purposes, including streetlights, to certain suburban cities. The likelihood of a material adverse outcome based upon this motion (or a similar yet-to-be-filed case based upon the same claims) cannot be predicted at this time.



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